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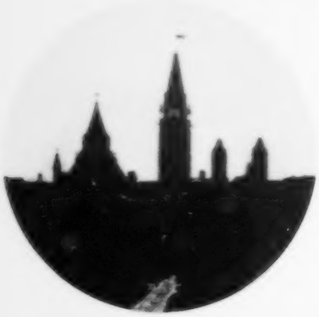

Report of the
Auditor General of Canada
to the House of Commons

NOVEMBER

Matters of Special Importance—2005
Main Points—Chapters 1 to 8

Office of the Auditor General of Canada

The November 2005 Report of the Auditor General of Canada comprises Matters of Special Importance—2005, Main Points—Chapters 1 to 8, eight chapters, and appendices. The main table of contents is found at the end of this publication.

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Auditor General of Canada
Vérificatrice générale du Canada

To the Honourable Speaker of the House of Commons:

I have the honour to transmit herewith my annual Report of 2005 to the House of Commons, which is to be laid before the House in accordance with the provisions of subsection 7(3) of the *Auditor General Act*.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

OTTAWA, 22 November 2005

Table of Contents

Matters of Special Importance—2005

My Fifth Annual Report 3

The Government of Canada has evolved to meet changing expectations 3

Today the federal government has become a large and complex organization 3

Many of the key issues facing Canada are complex and cut across traditional mandates 5

Leadership, co-ordination, and information are essential for success 5

Partnering creates additional challenges for accountability 6

National security raises a special case 7

The role of the Commissioner of the Environment and Sustainable Development has an impact 7

Conclusion 8

Main Points—Chapters 1 to 8

Chapter 1 Royal Canadian Mounted Police—Contract Policing 11

Chapter 2 The Quality and Reporting of Surveys 13

Chapter 3 Canada Revenue Agency—Verifying Income Tax Returns of Individuals and Trusts 15

Chapter 4 Managing Horizontal Initiatives 17

Chapter 5 Support to Cultural Industries 19

Chapter 6 Elections Canada—Administering the Federal Electoral Process 22

Chapter 7 Indian and Northern Affairs Canada—Meeting Treaty Land Entitlement Obligations 24

Chapter 8 Other Audit Observations 26

Matters of Special Importance—2005

Sheila Fraser, FCA
Auditor General of Canada

My Fifth Annual Report

1. As I approach the mid-point of my term as Auditor General, I am pleased to present my fifth annual report to Parliament.

2. In this report, I focus on some of the management and accountability challenges that arise from the growing size and complexity of the federal government. In particular, I encourage both the central agencies and parliamentarians to pay more attention to the management of horizontal issues—key initiatives that cut across departmental mandates and jurisdictions.

The Government of Canada has evolved to meet changing expectations

3. The central goal of the federal government is to improve the quality of life of Canadians. This is the common thread that ties together all of its policies, programs, and activities.

4. But within this overall goal, the people's expectations of government have changed—and expanded significantly—over time.

5. While the federal government has never been one-dimensional, in the years following Confederation, geography dictated much of what it did. The focus was on nation-building: opening up and settling the West, and providing the transportation services needed to do so. Production, conservation, and trade in our natural resources were related concerns.

6. As many authors have noted particularly since the Second World War, the Government of Canada has played an increasingly significant role in the lives of Canadians. The social and economic programs that were introduced—in the areas, for example, of social security, health, education, and regional development—significantly increased the scope of government. As its scope continues to expand, so do its size and its complexity.

Today the federal government has become a large and complex organization

7. The federal government is the single largest organization in Canada with annual revenue and expenses each over $200 billion, assets of over $200 billion, and liabilities of about $700 billion. It has operations throughout every region and offers 2,000 points of service in Canada and abroad.

8. It employs more than 450,000 staff, including public service employees, agents of Parliament, the staff of the Supreme Court, RCMP officers, members of the Canadian Forces, and employees of Crown corporations. They work in occupations that include administrators, engineers, doctors, nurses, scientists, teachers, tradespeople, and many others who serve the Canadian public each day.

9. To put these numbers into context, the Government of Canada raises five times the revenue of the largest private-sector organization in the country; that is also more than twice the annual revenue of the Canadian operations of General Motors, Ford, DaimlerChrysler, and Honda combined. It has three times more workers than the largest private sector employer; that is also more workers than the combined total of the five major banks. It is the biggest landlord and the largest owner of office properties in Canada. And it is also—by a wide margin—the largest single buyer of goods and services in Canada.

10. The federal government is a complex organization. It is made up of hundreds of different entities, ranging from large departments to small secretariats. While contributing to the federal government's overall goal, these entities serve an array of different objectives and priorities. The federal government has stated that it has more than 1,600 programs.

11. Moreover, the government has experimented with a range of organizational structures and relationships to deliver programs and services that traditionally have been provided by federal government departments, agencies, and Crown corporations. Examples include the National Child Benefit, infrastructure, labour market development agreements, and the various foundations. In these types of arrangements, the federal government and other levels of government and organizations in the private and voluntary sectors agree to share power and authority in decisions on program and service delivery.

12. The government also operates within a complex framework of legislation, regulation, and policy. For example, procurement is governed by 16 statutes, three international trade agreements, a federal-provincial trade agreement, and various regulations and policies. And the Treasury Board Secretariat's administrative policies—designed to provide direction to public sector managers and employees on accountabilities, responsibilities, performance expectations, required procedures, and desired management practices—include more than 300 policy instruments.

13. Adding to this complexity, the high standards expected of the public service include a degree of transparency that is unique to government operations, as well as to the public servants who manage and deliver their programs.

Many of the key issues facing Canada are complex and cut across traditional mandates

14. The structure of government departments and agencies has changed over time to ensure that there is a close fit between departmental mandates and the main issues facing government. Nearly all of the ministerial portfolios introduced at the time of Confederation still exist today, and more have been added over time. Many issues facing government can be managed by a single organization, working in consultation with others when necessary.

15. However, other key issues are complex and cut across departmental mandates or jurisdictions. They involve the interests and expertise of multiple departments, levels of government, the private and voluntary sectors, non-governmental organizations, and individuals.

16. Child care, child poverty, climate change, competitiveness, culture, homelessness, infrastructure, public security, and urban and rural affairs are all examples of the types of "horizontal" issues that the federal government has chosen to take on. No one agency has all the levers, resources, and expertise to manage such issues adequately on its own.

17. Intergovernmental co-operation is particularly important in many areas. In an earlier era, potential conflict within and between governments was restrained by the limited undertakings of public organizations at all levels. As the scope and size of government grew, however, the jurisdictions began to touch, and then overlap, and sometimes conflict.

Leadership, co-ordination, and information are essential for success

18. Given their interdependent and cross-cutting nature in an increasing number of areas, key objectives cannot be achieved without several partners working well together. It is difficult, for example, to consider competitiveness without also considering issues like education and training, investment, research and development, taxation, and trade. No single agency is responsible for all of these areas. And traditional management and accountability practices tend to reinforce a narrow or silo approach, rather than a broader corporate view of responsibilities.

19. Leadership is required to define and ensure that organizations work toward an overall objective and adopt a common vision of success. Appropriate resources that are dedicated to the cross-cutting issues need to be assigned and managed effectively to fill gaps in service and to eliminate duplication. Partners must also be able to demonstrate accomplishments, learn from their performance, and make adjustments if and when required.

20. Sustained attention in the initiation, resourcing, monitoring, and reporting of horizontal initiatives is also important. In Chapter 4—Managing Horizontal Initiatives—we look at federal policies and guidance, and the role of central agencies, for the creation and management of initiatives that involve a number of organizations.

21. We conclude that much of the federal government's approach to cross-departmental initiatives has been case by case, without having a coherent and integrated body of policies and guidance. Central agencies have not determined the circumstances that would require a horizontal initiative, nor what kind of decision-making structure is then needed. They have not developed adequate tools for the governance, accountability, and co-ordination of federal efforts in such initiatives and have made little progress in developing appropriate means of funding horizontal programs.

22. Organizations need good financial and other types of information to monitor the delivery of programs and services, exercise stewardship over resources for which they are responsible, support decisions, manage risks, and report on the financial and operating results. However, existing information systems are designed from a program and departmental perspective, rather than with a government-wide or broader view.

Partnering creates additional challenges for accountability

23. Accountability is central to representative democracy. It is the obligation of elected officials and public servants to demonstrate, review, and take responsibility for performance—in terms of both the results obtained and the means used. When problems occur, they need to be corrected and actions taken to ensure that they do not recur.

24. In our system of government, ministers are accountable to Parliament for the powers assigned to them. For public servants, accountability flows upward through their organization to their minister.

25. Effective accountability can be difficult at times in program areas where one organization controls most of the levers. The difficulties can be magnified and multiplied when the government is dealing with more complex issues that cut across mandates and jurisdictions and involve third-party delivery.

26. In addition, reporting is done on a departmental and program-by-program basis. As a result, Parliament does not always know who is in charge of an initiative, nor does it have an overall picture of what the initiative is achieving. When a number of organizations are working together on a complex issue and things go wrong, it may be difficult to identify where the system broke down and to take appropriate corrective action. Reporting and audit are important elements of the accountability loop. They deserve more attention.

27. Earlier this year, the *Budget Implementation Act, 2005* received royal assent. It changed the *Auditor General Act* and the *Financial Administration Act* to expand our mandate to include the auditing of additional Crown corporations and access to foundations in the course of our performance audits. I welcome these changes. Among other things, they will enable us to give Parliament a more complete picture of how the federal government manages key issues that cut across organizational boundaries.

National security raises a special case

28. In April, I raised the related issue of the challenges Parliament faces in holding the government to account for security and intelligence activities—activities that cut across the mandates of a number of government departments and agencies. While key information must be kept secret, Parliament must also be able to scrutinize the spending and performance of security and intelligence activities.

29. It is our understanding that the government has continued to work on a mechanism that would increase the role of Parliament in security and intelligence matters. The details have yet to be presented to Parliament. I encourage the government to do so.

The role of the Commissioner of the Environment and Sustainable Development has an impact

30. 2005 marks the 10th anniversary of the creation of the position of the Commissioner of the Environment and Sustainable Development within the Office of the Auditor General.

31. Parliamentarians created the position to have objective, independent analysis and recommendations on the federal government's efforts to protect the environment and foster sustainable development. In so doing, they recognized the importance of holding the government accountable for the management of a significant issue that cuts across departmental mandates: the greening of its policies, operations, and programs.

32. We welcomed this mandate and have made good use of it. The Commissioner's reports have identified key weaknesses in the federal government's management of environmental and sustainable development issues, and have encouraged the government to act on them. I believe our first 10 years of work have positioned us well to assist Parliament in addressing one of the 21st century's greatest challenges—protecting the environment while achieving economic and social progress.

Conclusion

33. As government has grown and become more complex, problems of internal management have greater consequences. The government, Parliament, and the Auditor General each have distinct powers and responsibilities in our Canadian system. But we share a common interest in a well-managed and accountable government. Working together, we can help improve both management and accountability for the benefit of all Canadians.

34. On a personal note, I would like to thank parliamentarians for their continued confidence in, and support for, our work. I would also like to recognize the enthusiasm and dedication of the staff of my Office, without whom none of my reports would be possible.

New this year

Readers will notice that the Main Points in this report have a new look, which we inaugurated in the 2005 Report of the Commissioner of the Environment and Sustainable Development.

We have introduced headings to the Main Points at the front of each chapter: What we examined, Why it's important, and What we found. We hope that this addition to our Main Points—which are intended to serve as a convenient summary of our reports for the benefit of busy readers—will be useful to parliamentarians and members of the public. This is part of our continuing effort to communicate clearly the scope and findings of our audits.

Main Points—Chapters 1 to 8

Royal Canadian Mounted Police
Contract Policing

Chapter 1

Main Points

What we examined

The federal government, through the Minister of Public Safety and Emergency Preparedness (formerly the Solicitor General), enters into contracts under which the Royal Canadian Mounted Police provides policing services to 8 provinces (all except Ontario and Quebec), 3 territories, and 192 municipalities. The RCMP also provides policing services to certain Aboriginal communities in the provinces and territories where it acts as the provincial police force.

We examined whether the RCMP meets its obligations under these contracts and whether it reports back to its clients on its performance. We looked at whether it is training and deploying its police workforce to meet its service standards and its contract obligations. (While this report discusses training and safety in general, we did not audit and do not comment on specific incidents that are under investigation by the RCMP or other bodies.) We also examined whether the RCMP bills for its policing services properly in accordance with each Provincial Policing Services Agreement (PPSA) or other agreements. And we looked at whether Public Safety and Emergency Preparedness Canada has assurance that the RCMP is meeting its commitments to provide policing services on reserves, under the federal government's First Nations Policing Policy.

Why it's important

The RCMP's ability to carry out its responsibilities effectively is central to the safety and security of Canadians. The RCMP is the largest police force in Canada and the primary police force for 20 percent of Canadians, in urban centres as well as small isolated communities. Contract policing accounts for $1.6 billion in annual spending—$1.1 billion of which is recovered from provinces, territories, and municipalities.

What we found

- The RCMP works with the provinces, territories, and municipalities to incorporate their priorities for contract policing in their jurisdictions, and these clients have said they appreciate the quality of the peace officers assigned to them. However, the RCMP lacks sound mechanisms for measuring and reporting on the extent to which it has implemented its clients' priorities.

- In effect, the RCMP fulfills its contract obligations to staff the required number of peace officers. However, when estimating the number of positions needed it does not take into account the impact of short- and long-term absences (due to injury, illness, and parental leave) in almost seven percent of contract police positions. This significantly affects the delivery of contract policing to support safe communities.
- Gaps in training and requalification/recertification may compromise the health and safety of peace officers and the public.
- PSEPC has negotiated community tripartite agreements that commit the RCMP to providing First Nation communities with an enhanced level of service—for example, having peace officers spend at least 80 percent of their time on reserve. We found that the RCMP is not meeting these commitments and that PSEPC is not properly monitoring the implementation of the agreements it has negotiated. Furthermore, these agreements are not designed to address the specific needs of the communities: PSEPC and the RCMP are not keeping pace with the changing nature of Aboriginal communities.

The departments have responded. The Royal Canadian Mounted Police and Public Safety and Emergency Preparedness Canada have agreed with each of our recommendations and have committed to take action, within the scope of their authority, on the concerns we raise in this chapter.

The Quality and Reporting of Surveys

Chapter 2 Main Points

What we examined

We examined the presentation of survey results in all 2003–04 departmental performance reports. We also examined two of the most important indicators of the quality of surveys conducted under contract by private research firms for federal departments and agencies in the same period. We focussed on whether the federal government provides leadership for survey quality in a way that enables departments and agencies to produce commissioned surveys of sufficient quality for their intended use. We also looked at whether government-wide leadership contributes to consistently high-quality surveys across government. We examined the specific roles played by the Treasury Board Secretariat and by the Public Opinion Research Directorate in Public Works and Government Services Canada. We looked at Statistics Canada surveys only for comparative purposes and not as part of the audit.

Why it's important

The government can use information gathered through surveys for a variety of purposes, such as understanding the views of Canadians on government priorities and policies, improving the management of departments and agencies, and monitoring their performance.

Information generated by surveys must be of good quality if it is to be credible and useful to parliamentarians, government managers, and Canadians, especially when it concerns the performance of government programs. Deputy ministers and agency heads need to be confident about the quality of any survey data included in their departmental performance reports. This is because they sign formal statements that the reports have been prepared according to certain principles designed to assure readers that, among other things, the information in the reports is accurate and any weaknesses and limitations of the data are disclosed properly. Poor-quality survey results presented in performance reports could give a misleading picture of how well programs are performing. Furthermore, there is a risk that inaccurate data from surveys could be used in government decision making.

While the cost of public opinion surveys commissioned by the federal government may be relatively small (between $11 million and $15 million per year), the cost of programs addressed by these surveys is in the billions of dollars. The growth in the number of surveys in recent years underscores the importance of assuring their quality. It is important for Canadians, especially those participating in federal government surveys, to be confident that the results will be of sufficient quality for their intended use.

What we found

- There is insufficient reporting on the quality and limitations of survey results in the 2003–04 departmental performance reports. Without this information, readers lack the means to judge the reliability of the data.
- Two important indicators of the quality of public opinion surveys—that is, population coverage and response rates—raise issues of quality in the surveys commissioned by departments and agencies in 2003–04. These issues signal potential problems that are of concern to us.
- Individual departments and agencies are responsible for the quality of surveys conducted for them. However, Treasury Board policies assign a range of responsibilities for the quality of federally contracted surveys to the Public Opinion Research Directorate. The Directorate is not adequately fulfilling key aspects of those responsibilities that would contribute to survey quality.

The Department and the Treasury Board Secretariat have responded. Public Works and Government Services Canada and the Treasury Board Secretariat are in general agreement with our recommendations. Their respective responses are included throughout the chapter.

Canada Revenue Agency

Verifying Income Tax Returns of Individuals and Trusts

Chapter 3

Main Points

What we examined

The Canada Revenue Agency is responsible for administering the *Income Tax Act*. It strives to ensure that Canadians pay their required share of taxes and that the tax base is protected. We looked at how the Agency verifies the accuracy of income tax returns of domestic trusts and certain aspects of personal income tax returns. We examined how the Agency decides which tax returns it will verify; whether it has adequate verification procedures, including its use of information from third parties; and whether it compiles complete and accurate information on the results of its verification programs.

Why it's important

The Canadian tax system is based on self-assessment, with each individual and trust required to provide complete and accurate information to the government on the income taxes they owe.

The programs we looked at form the backbone of the Agency's verification of personal income tax returns. In 2003–04, these programs scrutinized about 24 million returns filed by taxpayers, and they verified aspects of returns that did not appear to comply with the law. Personal or individual income tax is the single most important source of government revenue; in 2003–04, the Agency assessed $125 billion in taxes payable by individuals to the federal, provincial (other than Quebec), and territorial governments. In the same year, domestic trusts were assessed $3 billion in federal, provincial, and territorial income taxes, and they allocated income of $23 billion to their beneficiaries.

What we found

- The Agency's processing review program has a well-designed and well-executed risk-based approach for selecting and verifying deductions and credits that individuals have claimed on their tax returns but may not be fully entitled to. It found that the percentage of such taxpayers doubled to 11 percent from 1997 to 2003 although according to our estimate, the total revenue at risk has remained relatively constant for the last four years. Using the Agency's data for 2002–03, we estimated that, had all taxpayers complied fully with the rules for claiming the 32 deductions and credits covered by the processing review program, revenues from personal income taxes that year would have been $586 million higher. The program recovered 27 percent of that amount, or $160 million, by verifying about three percent of the returns assessed that year.

- In its matching program, the Agency compares the information reported by taxpayers with information submitted by third parties such as employers and financial institutions. Where it finds one or more discrepancies, it calculates the amount of income tax that is potentially recoverable. While the matching program selects returns for review based on risk, its estimate of risk does not include the system's calculation of the amount potentially recoverable. As a result, the Agency does not consistently select and review the returns with the largest amounts of potentially unreported income. Nor does it estimate the tax at risk for returns where it has identified discrepancies but not verified them.
- In not monitoring the tax revenue impact of non-compliance in the areas verified by the processing review and matching programs, the Agency is not considering an important element in evaluating these programs' effectiveness.
- The Agency does not systematically evaluate the tax revenue at risk in domestic trusts when choosing the tax returns it verifies. In addition, the development of an effective risk evaluation system is hampered by the lack of key information such as the value of assets and liabilities held in trusts. The Agency emphasizes audits of testamentary trusts. In the last three years, average tax recoveries from audits of testamentary trusts have been about five times smaller than average recoveries from audits of other trusts.
- There are also deficiencies in the Agency's review activities for tax returns of domestic trusts. For example, the only measure of its performance in this area is whether a return was processed in the time allotted by the Agency's service standard; it lacks information on corrections made by its assessors; and it does not compare deductions claimed by trusts for allocations to beneficiaries against the amounts reported on the information slips the trusts provide to beneficiaries.

The Agency has responded. In its response to each recommendation, throughout the chapter, the Canada Revenue Agency has indicated the action it has taken or plans to take.

Managing Horizontal Initiatives

Chapter 4

Main Points

What we examined

This audit looked at federal policies, government-wide guidance, and the role of central agencies in creating, co-ordinating, and overseeing initiatives that involve a number of organizations. We examined in more detail how the federal government approached three such initiatives—the Canadian Biotechnology Strategy, the National Homelessness Initiative, and the Vancouver Agreement (an urban development initiative).

We focussed on how the federal government managed and co-ordinated its efforts in these initiatives and what impact this had on their results. While we do not comment on the merits of the initiatives or the performance of other participating governments and organizations, we interviewed officials from these entities and benefited from their insights.

Why it's important

The federal government has recognized the need to deal with complex issues that cross jurisdictional boundaries and defy simple solutions. Some of these problems have multiple causes, have developed over a long period of time, and cannot be addressed by individual departments or governments. They require a response by a number of organizations, often through horizontal initiatives.

The federal government needs to find effective ways to manage such efforts across several federal organizations, while respecting the fundamental principles of ministerial responsibility. The efficient use of resources in delivering programs and services depends on integrated decision making across federal organizations. Moreover, when horizontal management is inadequate, the government is less likely to achieve the results it has promised to Canadians.

What we found

- Although there have been some recent improvements, much of the federal government's approach to horizontal initiatives is still on a case-by-case basis. Central agencies have not determined the kinds of circumstances that require a horizontal initiative and the kind of governance needed. They have not developed enough specialized tools for the governance, accountability, and co-ordination of federal efforts in such initiatives and have made little progress in developing means of funding horizontal programs.

- Two of the three initiatives we examined made inadequate arrangements for governance and co-ordination. For example, the Canadian Biotechnology Strategy did not deal adequately with advice from external experts. Due to a lack of federal co-ordination, the National Homelessness Initiative did not benefit adequately from the available federal expertise on health and housing.
- There was little planning in any of the three initiatives for measuring and reporting on how federal organizations would contribute to the initiative as a whole. Most reporting has focussed on individual federal programs. As a result, Parliament does not have an overall picture of what the initiatives are achieving.
- We found a promising governance model in the Vancouver Agreement, where the provincial, municipal, and federal governments are working together to meet community needs. The approach was developed from the ground up and evolved from an unfunded initiative with an agreement to collaborate to one that is funded.

The government has responded. The Treasury Board of Canada Secretariat and the Privy Council Office's response, on behalf of the government and the federal organizations we audited, is included at the end of this Chapter. The government respects the spirit of our recommendations and recognizes the need for improvements in managing horizontal initiatives.

Support to Cultural Industries

Chapter 5

Main Points

What we examined

Canadian Heritage supports the cultural industries of film, television, publishing, sound recording, and new media to encourage them to create, produce, and disseminate Canadian cultural content. Its assistance includes such measures as grants and contributions as well as rules governing copyright and Canadian ownership of cultural enterprises. The government also supports the audiovisual industry through tax credits.

We examined the Department's strategic direction, governance, control, results measurement, and accountability reporting mechanisms for managing its support to cultural industries. We also examined how the Department and organizations that support cultural industries ensure that feature film and television producers who receive financial assistance have satisfied Canadian content requirements and eligibility rules for expenses.

Why it's important

Canadian Heritage and other organizations such as Telefilm Canada, the Canadian Television Fund Corporation, and the Canada Revenue Agency provide more than $800 million yearly to cultural industries in the form of investments, grants, contributions, and tax credits. This support for the creation and production of Canadian content is aimed at helping to develop Canadians' sense of belonging and building the country's national identity.

Cultural industries employ about 600,000 people in Canada each year, according to Statistics Canada—among them writers, musicians, publishers, actors, producers, and technical specialists. By supporting these industries, Canadian Heritage helps them face foreign competition and contributes to the cultural and economic vitality of Canada.

What we found

- Canadian Heritage recently developed its first strategic plan in its Cultural Affairs Sector. However, the Department has not yet defined clearly enough an overall vision of the results it wants to attain over the coming years with its support to cultural industries. In the absence of a more clearly defined strategy for the entire cultural sector, each of the branches in its Cultural Affairs Sector risks developing its own plans, priorities, and production schedules independently for the industry it supports. Within the Sector, there are few horizontal management mechanisms through which the branches share experience, knowledge, and best practices. For the most part, the Department has not established targets by which to measure its performance and so is unable to give Parliament a clear picture of what it wants to achieve, what it has achieved, and the progress made through the financial support it has provided to cultural industries.

- Canadian Heritage has considerable influence over the governance of the Canadian Television Fund and Telefilm Canada through its contribution agreements with these two organizations.
- Despite several efforts made to improve the situation, the governance of the Canadian Television Fund remains complex. It requires the involvement of two boards of directors in decision making: the Board of the Canadian Television Fund (CTF) and the Board of Telefilm Canada. CTF program objectives are broad and lack precision. They do not provide the Board of Directors with specific direction for making strategic decisions. Further, the composition of the CTF Board is a potential source of conflict of interest, and its conflict-of-interest guidelines are not applied rigorously. Current arrangements make the administration of the CTF program cumbersome—for example, a producer receiving assistance from both components of the CTF program must sign separate contracts with the two corporations.
- Under its current contribution agreements with Canadian Heritage, Telefilm Canada has little leeway to interpret its mandate and determine the best way of carrying it out. This degree of government oversight is unique among Crown corporations. Furthermore, a proposal to modify the governance structure of the Canadian Television Fund may significantly limit both Telefilm Canada's role in the development of the television industry and its ability to account to Parliament on this aspect of its expanded mandate.
- Canadian Heritage, Telefilm Canada, the Canadian Television Fund Corporation, and the Canada Revenue Agency have put in place a control framework appropriate to the nature of operations in the audiovisual sector. However, Canadian Heritage and Telefilm Canada do not apply their controls rigorously enough to ensure that Canadian content requirements are met, projects are selected in accordance with criteria, and only eligible expenses are reimbursed. The CRA does not apply its controls rigorously enough to ensure that tax credits are paid only for eligible expenses. Weaknesses in the

sharing of information among all the organizations involved, including the Canadian Radio-television and Telecommunications Commission, also limit the effectiveness of controls.

The organizations have responded. Canadian Heritage, the Canadian Television Fund, the Canada Revenue Agency, Telefilm Canada, and the Canadian Radio-television and Telecommunications Commission have accepted our recommendations. Their detailed response follows each recommendation in the chapter.

Elections Canada

Administering the Federal Electoral Process

Chapter 6

Main Points

What we examined

Under the *Canada Elections Act*, Elections Canada is responsible for delivering federal elections and for supporting eligible voters, through public education and information programs. We examined the activities Elections Canada carries out to prepare for and deliver elections, to improve the electoral process, to educate and inform voters, and to manage its operations.

Why it's important

Through federal elections, voters choose members of Parliament to represent Canadians in the House of Commons. Election administration supports the democratic process in Canada by ensuring that all eligible voters can cast their ballots and that elections are fair and transparent. These principles guide Elections Canada's work.

Elections involve citizens at every level of the process. Citizens, election staff, and political parties all contribute to successful elections.

What we found

- Elections Canada plans, manages, and administers the federal electoral process well and in accordance with applicable authorities.
- Through good planning and regular updating of its geographic and voter information databases, Elections Canada stays prepared for an election that can be called at any time. It ensures that eligible voters can vote by helping them get their name on the lists of electors; by communicating how, when, and where to vote; and by providing flexible voting opportunities. It also provides considerable support to returning officers and their staff in delivering elections.
- Elections Canada plays a key role in supporting the fairness and transparency of elections by registering political entities and monitoring their financial activities, supporting and monitoring the activities of returning officers and election staff, and ensuring compliance with the *Canada Elections Act*. Further, it delivers a number of public education and information programs aimed at enhancing the understanding of the federal electoral process and increasing the participation rate of targeted groups of electors. We found that Elections Canada works effectively with Parliament and

other stakeholders to identify ways of improving the electoral process.

- Although Elections Canada has the core elements of a good performance measurement and reporting framework, it lacks performance targets and indicators for some of its key activities. As a result, its reports to Parliament are not clear on the extent to which those activities have been successful.
- While Elections Canada has in place some elements of a human resources plan, it uses information that is fragmented. This makes it difficult to anticipate future staffing needs, including the need for succession planning.

Elections Canada has responded. In its response to each recommendation throughout the chapter, Elections Canada indicates the action it has taken, is taking, or plans to take to address the recommendation.

Indian and Northern Affairs Canada

Meeting Treaty Land Entitlement Obligations

Chapter 7 Main Points

What we examined

Indian and Northern Affairs Canada is responsible for managing the implementation of treaty land entitlement agreements on behalf of the federal government. These agreements set out how the government will provide land to First Nations that it failed to provide in accordance with treaties. We examined the Department's progress in converting land selected under the agreements to reserve status in Saskatchewan and Manitoba—the two regions with the majority of agreements—and whether the Department is managing the conversion process in a way that is consistent with its legal obligations to First Nations.

Why it's important

Treaties between the Crown and First Nations are solemn agreements that set out promises, obligations, and benefits for both parties. However, not all First Nations received the full amount of land to which historic treaties entitled them. Treaty land entitlement agreements provide those First Nations with funds to buy land or give them the right to select Crown land, or both. These agreements are modern legal commitments that recognize the government's failure to comply with its treaty obligations. Recognizing that it was taking too long—from five to seven years—to convert land to reserve status, the Minister of Indian and Northern Affairs committed in 2001 to reducing the length of time to two years.

Meeting the obligations set out in treaty land entitlement agreements within a reasonable time is important to both Canada and First Nations. By doing so, Canada honours its long-standing commitments to treaty land for First Nations, who have a strong traditional attachment to land and view it as vital to their cultural preservation and economic development. The federal government has committed over $500 million since 1992 to meet these obligations in Saskatchewan and Manitoba.

What we found

- Deficiencies in the Department's management practices—inadequate planning and an absence of targets for land conversion, for example—have limited its progress in converting to reserve status the large number of acres that First Nations have selected in both Saskatchewan and Manitoba.
- Since 1992, 58 percent of acres selected by First Nations in Saskatchewan have been converted to reserve status; only 12 percent of acres selected by First Nations in Manitoba have been converted since 1994. Furthermore, the Department has been unable to demonstrate that it has any plan in place to process remaining selections and to fulfil commitments under these agreements.
- While the terms of the agreements differ and may explain in part the different rates of progress in the two regions, in general the slow progress is due to deficiencies in the way the Department manages certain requirements in the process. Fixing some of these deficiencies is directly within the Department's control—for example, issues related to environmental reviews and land surveys, two of the processes that must take place before land can be converted. The Department has less control over other steps, such as the requirement for First Nations to resolve third-party interests, including reaching agreement with municipalities on the provision of municipal services.
- Inconsistencies in the Department's communications about what is required of First Nations to move the conversion process forward have caused frustration among First Nations. We found that, overall, the Department's communication with First Nations is limited, seldom providing information on what stage in the process a selection has reached and what steps are next. The Department does little work to fulfill its responsibility to identify First Nations that may need more assistance to meet requirements.

The Department has responded. Indian and Northern Affairs Canada agrees with the recommendations. Its detailed response follows each recommendation throughout the chapter.

Other Audit Observations

Chapter 8

Main Points

What we examined

Each year we audit the financial statements of the Government of Canada, most Crown corporations, and other organizations. Other Audit Observations discusses specific matters that have come to our attention in the course of that work or our performance audit work. This chapter includes four such observations, involving the Canadian International Development Agency (CIDA), Transport Canada, Parc Downsview Park Inc., and the *Employment Insurance Act*.

Because these observations deal with specific matters, they should not be applied to other related issues or used as a basis for drawing conclusions about matters we have not examined.

Why it's important

We may report a specific observation for any of several reasons. Generally, the issue is timely and signals the possibility of a larger systemic matter. It may involve a significant amount of public money, and it may raise a question of compliance with laws or regulations. Whatever the reason, each observation in this chapter concerns a matter that we think warrants Parliament's attention in the current Report.

What we found

- **CIDA—Tsunami disaster relief.** In the middle of the tsunami disaster in Southeast Asia, the Agency provided emergency relief and also successfully launched a matching-funds program. It has generally managed its grant agreements well and has established a satisfactory accountability framework for this five-year program. The Agency was unable to spend all its initial tsunami funds before the financial year end and spent about $69 million of the funds on other activities. It plans to redirect the same amount from its regular 2005–06 budget back to tsunami relief. Credible and candid reporting of the results of its tsunami aid activities will be important in the future.
- **Transport Canada—The Quebec Bridge.** In 1993, Transport Canada signed an agreement with the Canadian National Railway Company (CN), transferring the Quebec Bridge to CN (a Crown corporation at that time). In 1997 Transport Canada, CN, and the

Government of Quebec signed a $60 million agreement for the restoration of the bridge over 10 years. Today, the restoration of this important regional transportation infrastructure, a national historic site, is only partly completed. It will not be completed within the timeline and budget established in the agreement. Major issues remain regarding the financing of the rest of the restoration work in the years to come. Transport Canada needs to act to ensure the long-term viability of the Quebec Bridge.

- **Parc Downsview Park Inc.—The transfer of Downsview lands and financing of future operations.** The government has prepared the way to obtain Parliament's approval for the transfer of 227.65 hectares of Downsview lands to Parc Downsview Park Inc. The government has also authorized that the lands then be used to generate revenue that will finance the creation of an urban recreational green space. If implemented, these decisions will resolve matters we have previously reported to Parliament.
- **The *Employment Insurance Act*—A new rate-setting process.** For the past six years we have raised concerns about compliance with the intent of the *Employment Insurance Act*—specifically, the process for setting Employment Insurance (EI) premium rates and its impact on the size and growth of the accumulated surplus in the EI Account. A recent amendment to the Act means that as of 2006, the rate-setting process will change so the premium rate each year will generate just enough revenue to cover the costs of the program. The Account will continue to record program revenues and expenses, but the accumulated surplus is no longer to be considered in calculating the break-even premium rate.

Report of the Auditor General of Canada to the House of Commons—November 2005

Main Table of Contents

Matters of Special Importance—2005
Main Points—Chapters 1 to 8

Chapter 1 Royal Canadian Mounted Police—Contract Policing

Chapter 2 The Quality and Reporting of Surveys

Chapter 3 Canada Revenue Agency—Verifying Income Tax Returns of Individuals and Trusts

Chapter 4 Managing Horizontal Initiatives

Chapter 5 Support to Cultural Industries

Chapter 6 Elections Canada—Administering the Federal Electoral Process

Chapter 7 Indian and Northern Affairs Canada—Meeting Treaty Land Entitlement Obligations

Chapter 8 Other Audit Observations

Appendices

2005

Report of the
Auditor General of Canada
to the House of Commons

NOVEMBER

Chapter 1
Royal Canadian Mounted Police—
Contract Policing

Office of the Auditor General of Canada

The November 2005 Report of the Auditor General of Canada comprises Matters of Special Importance—2005, Main Points—Chapters 1 to 8, eight chapters, and appendices. The main table of contents is found at the end of this publication.

The Report is available on our Web site at www.oag-bvg.gc.ca.

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Chapter

1

Royal Canadian Mounted Police

Contract Policing

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Table of Contents

Main Points 1

Introduction 3

Maintaining law and order is a provincial and territorial responsibility 3
Contract policing agreements 5
The nature of policing has changed 7
Focus of the audit 7

Observations and Recommendations 8

Setting priorities and measuring and reporting performance 8
The RCMP accountability framework is different from those of other police forces 8
Contract clients help set priorities but receive limited information on progress 8
Surveys provide limited information on performance 11

Managing human resources 12
Inadequacies found in identifying resources required for contract policing 12
Inadequacies in filling staff absences leave numerous gaps in detachments 14
Gaps in training may compromise the health and safety of peace officers and the public 17
Gaps in completing training for newly graduated cadets 19
Failure to requalify and recertify for mandatory training 20

Billing for services provided 21
Processes are in place to ensure that clients are billed in accordance with agreements 22
While financial disputes are rare, there is no established process to address them 23
The RCMP has effectively met its obligations to provide and bill for contract peace officers 25

Aboriginal policing 26
Agreements are not being implemented as stated 28
Community tripartite agreements affect the RCMP's policing under provincial agreements 31
Public Safety and Emergency Preparedness Canada is not monitoring the implementation of contracts 32
Applicability of the First Nations Policing Policy north of 60° is uncertain 33

Conclusion 34

About the Audit 35

Appendix

List of recommendations 37

Royal Canadian Mounted Police

Contract Policing

Main Points

What we examined

The federal government, through the Minister of Public Safety and Emergency Preparedness (formerly the Solicitor General), enters into contracts under which the Royal Canadian Mounted Police provides policing services to 8 provinces (all except Ontario and Quebec), 3 territories, and 192 municipalities. The RCMP also provides policing services to certain Aboriginal communities in the provinces and territories where it acts as the provincial police force.

We examined whether the RCMP meets its obligations under these contracts and whether it reports back to its clients on its performance. We looked at whether it is training and deploying its police workforce to meet its service standards and its contract obligations. (While this report discusses training and safety in general, we did not audit and do not comment on specific incidents that are under investigation by the RCMP or other bodies.) We also examined whether the RCMP bills for its policing services properly in accordance with each Provincial Policing Services Agreement (PPSA) or other agreements. And we looked at whether Public Safety and Emergency Preparedness Canada has assurance that the RCMP is meeting its commitments to provide policing services on reserves, under the federal government's First Nations Policing Policy.

Why it's important

The RCMP's ability to carry out its responsibilities effectively is central to the safety and security of Canadians. The RCMP is the largest police force in Canada and the primary police force for 20 percent of Canadians, in urban centres as well as small isolated communities. Contract policing accounts for $1.6 billion in annual spending—$1.1 billion of which is recovered from provinces, territories, and municipalities.

What we found

- The RCMP works with the provinces, territories, and municipalities to incorporate their priorities for contract policing in their jurisdictions, and these clients have said they appreciate the quality of the peace officers assigned to them. However, the RCMP lacks sound mechanisms for measuring and reporting on the extent to which it has implemented its clients' priorities.

- In effect, the RCMP fulfills its contract obligations to staff the required number of peace officers. However, when estimating the number of positions needed it does not take into account the impact of short- and long-term absences (due to injury, illness, and parental leave) in almost seven percent of contract police positions. This significantly affects the delivery of contract policing to support safe communities.
- Gaps in training and requalification/recertification may compromise the health and safety of peace officers and the public.
- PSEPC has negotiated community tripartite agreements that commit the RCMP to providing First Nation communities with an enhanced level of service—for example, having peace officers spend at least 80 percent of their time on reserve. We found that the RCMP is not meeting these commitments and that PSEPC is not properly monitoring the implementation of the agreements it has negotiated. Furthermore, these agreements are not designed to address the specific needs of the communities: PSEPC and the RCMP are not keeping pace with the changing nature of Aboriginal communities.

The departments have responded. The Royal Canadian Mounted Police and Public Safety and Emergency Preparedness Canada have agreed with each of our recommendations and have committed to take action, within the scope of their authority, on the concerns we raise in this chapter.

Introduction

1.1 Effective policing is a fundamental requirement for a safe and secure society. Canada has close to 60,000 peace officers employed in municipal, provincial, and federal police organizations. The Royal Canadian Mounted Police (RCMP) is by far Canada's largest police force, and contract policing—providing policing services under contract to provinces, territories, municipalities, and First Nations reserves—is its largest activity, occupying almost 60 percent of its 18,471 peace officers.

Some communities are only accessible by boat or plane.

1.2 Contract policing ranges from large urban detachments in the lower mainland area of British Columbia, such as Richmond and Surrey, to remote and isolated posts in Canada's North. In some instances, the nearest detachment responding to a call could be three or four hours away from the incident.

Maintaining law and order is a provincial and territorial responsibility

1.3 The administration of justice within provincial and territorial boundaries, including the enforcement of the *Criminal Code*, is the constitutional responsibility of provincial and territorial governments. Rather than establish their own police services, however, most provinces, territories, and many municipalities contract for the RCMP's services. Contract policing has a budget of $1.6 billion annually, $1.1 billion of which is recovered from clients. Exhibit 1.1 indicates where these services are provided.

1.4 The RCMP's contract policing activities consist of three programs:

- provincial, territorial, and municipal policing services;
- Aboriginal policing; and
- airport policing, at three international airports (accounts for about $5 million in expenditures annually and is not included in the scope of this audit).

1.5 While contract policing services are not a federal responsibility, the RCMP reports that the federal government receives benefits from providing the services to provinces, territories, and municipalities. It notes that contract policing

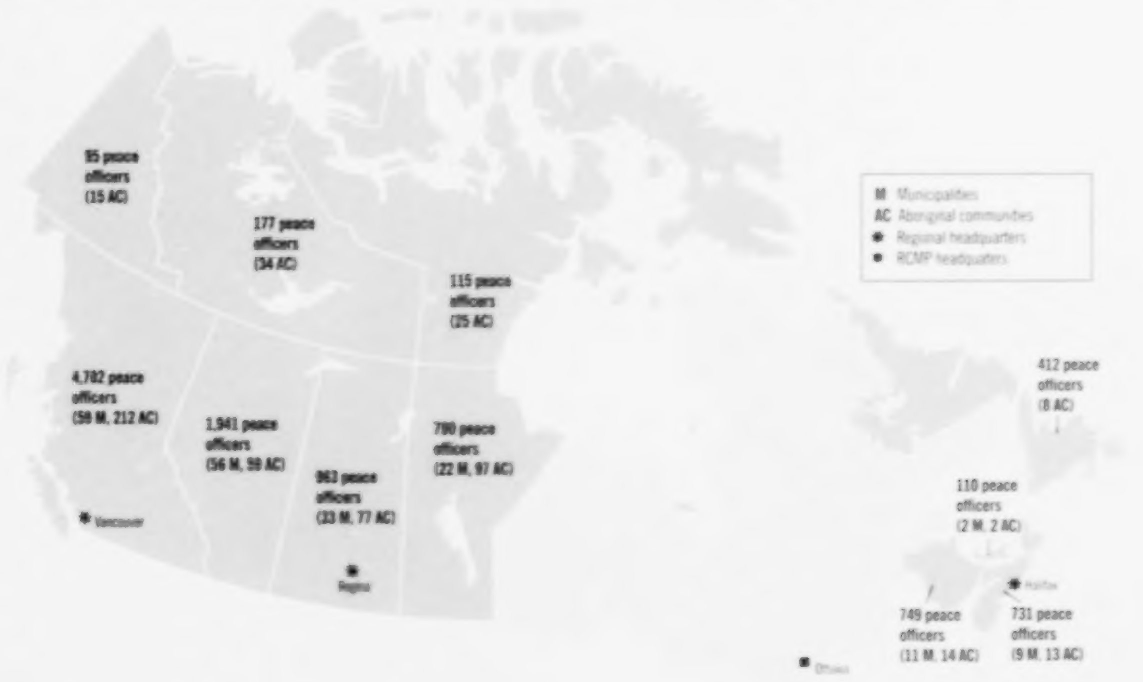
- creates a large pool of trained peace officers to draw from when situations require a temporary redeployment of peace officers, such as the 2002 Summit of G8 leaders that met in Kananaskis, Alberta;

- enables the RCMP to be a truly national police force, with experience in policing at all levels (rural, municipal, provincial, national, and international); and
- provides the RCMP with a training ground for new recruits to gain experience in local and regional policing prior to moving to federal policing activities, such as national security, money laundering, and organized crime.

1.6 According to the RCMP, provinces and territories also benefit from

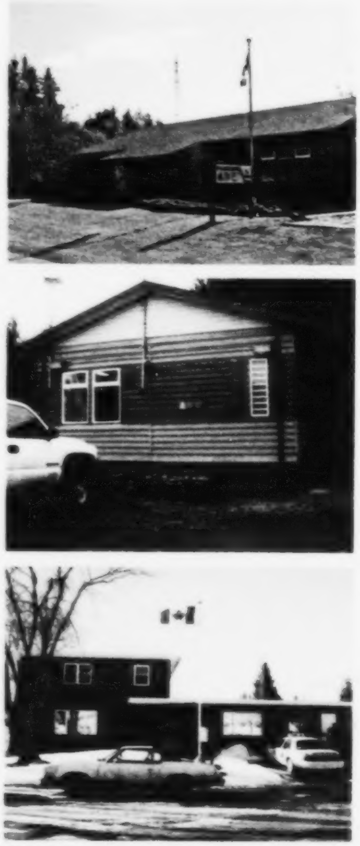
- a standardized training program for peace officers serving in multiple jurisdictions;
- a close working relationship with the RCMP's federal police service; and
- recourse to a flexible response, with experts and additional peace officers available from across the country to assist in major investigations, emergencies, and special events when required.

Exhibit 1.1 **RCMP contract policing services are provided in 8 provinces, 3 territories, 192 municipalities, and 556 Aboriginal communities.**


95 peace officers (15 AC)
177 peace officers (34 AC)
115 peace officers (25 AC)
4,782 peace officers (58 M, 212 AC)
1,941 peace officers (56 M, 59 AC)
963 peace officers (33 M, 77 AC)
790 peace officers (22 M, 97 AC)
412 peace officers (8 AC)
110 peace officers (2 M, 2 AC)
749 peace officers (11 M, 14 AC)
731 peace officers (9 M, 13 AC)
Vancouver
Regina
Halifax
Ottawa
M Municipalities
AC Aboriginal communities
Regional headquarters
RCMP headquarters

1.7 The Minister of Public Safety and Emergency Preparedness (formerly the Solicitor General) is the Minister responsible for the RCMP. Supported by Public Safety and Emergency Preparedness Canada (PSEPC), the Minister is responsible for negotiating and maintaining the federal, provincial, and territorial policing services agreements, and the agreements for Aboriginal policing. In addition, PSEPC provides the Minister with advice and recommends strategic direction for policies and programs including policing. Exhibit 1.2 depicts these relationships.

Contract policing agreements



RCMP detachment offices, like the communities they serve, come in various sizes.

1.8 The RCMP has been involved in contract policing services since 1928, when the first provincial agreement was negotiated. Today, each participating province and territory has a Provincial (or Territorial) Policing Services Agreement (PPSA or TPSA), with terms requiring the provinces to pay 70 percent and the federal government to pay 30 percent of the policing costs. Current PPSA and TPSA agreements were signed in 1992 and are in effect until 31 March 2012.

1.9 In general, municipalities in contract provinces with populations greater than 15,000 that have the RCMP as their police force, pay 90 percent of their policing agreement's costs while the federal government pays 10 percent. There are two exceptions where the municipalities pay 100 percent. Municipalities with populations less than 15,000 pay 70 percent while the federal government pays 30 percent.

1.10 Aboriginal policing is delivered through the Provincial Policing Services Agreement (PPSA) and in some cases through community tripartite agreements (CTAs) between band councils, provinces, and the federal government. At the time of our audit there were 75 tripartite agreements in place across Canada, under which the provinces pay 48 percent of the costs of policing, and the federal government, through PSEPC, covers the 52 percent federal share. PSEPC is also responsible for an Aboriginal policing program that predates CTAs—the Aboriginal Community Constable Program (ACCP). That program funds agreements between the provinces/territories and the federal government in five provinces and two territories, with the province paying 54 percent of the costs and PSEPC the remaining 46 percent.

Exhibit 1.2 Roles and responsibilities in contract policing

Roles and responsibilities in policing provinces, territories, and municipalities

Provinces and territories may contract with the federal government, represented by the Minister of Public Safety and Emergency Preparedness, for policing services. Provincial and territorial police services agreements

- set the overall framework and responsibilities of each party;
- set out the cost sharing formulas and requirements for consultation, billing, payments, and changing the number of peace officers required;
- follow the same format and standard wording;
- are established with the Government of Canada but the RCMP, which is accountable to the Minister, provides the required peace officers.

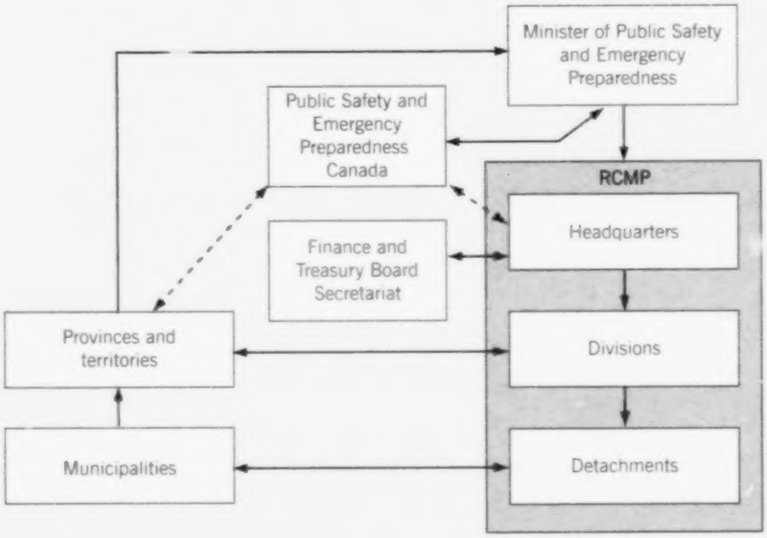
Annual priority setting, funding, and resource allocation process

Provincial and territorial policing. Each province and territory determines the number of peace officers it requires. As long as the number meets the minimum standard of policing set by the RCMP, the RCMP has one year to adjust the size of its force. Provincial or territorial activity includes all police services not provided at the federal or municipal level.

Municipal policing. In cities where the RCMP provides a local police force, municipal agreements flow from the provincial agreements.

Aboriginal community policing. Agreements for policing aboriginal communities are signed by the provinces or territories and the Minister of Public Safety and Emergency Preparedness, and in the case of community tripartite agreements, the applicable First Nation community. As with the other agreements, the RCMP, while not a signatory, provides policing services, which are partly funded by parliamentary appropriation.

Following consultation between the detachment commander and the community about the services to be provided, the community makes its request to its provincial or territorial counterpart. This is combined in the annual request for changes to the level of policing for each province and territory and sent to PSEPC, which then forwards it to the RCMP. The RCMP discusses the request with the Department of Finance and the Treasury Board Secretariat, which include the changes when planning the following year's parliamentary appropriation. The RCMP then recruits, trains, and deploys the necessary peace officers.


Minister of Public Safety and Emergency Preparedness
Public Safety and Emergency Preparedness Canada
Finance and Treasury Board Secretariat
RCMP
Headquarters
Divisions
Detachments
Provinces and territories
Municipalities

Source: Adapted from the *Provincial Police Services Agreement: Interpretation and Administrative Procedures*, (RCMP, 1995).

The nature of policing has changed

Community policing—An approach to policing where the police and the community work together to develop methods for addressing local crime and disorder problems. The two core strategies of community policing are problem solving and community partnerships.

1.11 The nature of policing has changed significantly since the current agreements (PPSA) were signed in 1992. At that time, the RCMP was in the early stages of formalizing its **community policing** program, which is designed to help prevent crime while supporting the social needs of the community.

1.12 New pressures and increased expectations from both the public and the courts have affected policing. The *Canadian Charter of Rights and Freedoms* introduced requirements for police organizations to disclose more information, and evidence is challenged more readily. Peace officers must therefore spend more time preparing documentation and less on street duties.

1.13 The events of September 11, 2001 brought to the forefront the importance of enforcement agencies working together. In response, the RCMP has worked to enhance further co-operation among peace officers in Canada's law enforcement community by sharing intelligence, tools, and innovations. This integrated policing activity also encourages the sharing of information among different RCMP program activities and investigative units.

Focus of the audit

1.14 This audit examined selected areas of contract policing services provided in accordance with policing standards and with contractual commitments entered into by Public Safety and Emergency Preparedness Canada. We examined the activities of PSEPC and the RCMP related to contract police services provided to provinces, territories, and First Nation communities; we did not examine contract police services at airports. We focussed on how the RCMP

- sets priorities and measures performance,
- identifies requirements for and staffs contract police positions,
- ensures that peace officers are properly trained,
- ensures their health and safety,
- bills its clients for services, and
- provides police services for First Nation communities.

More details on our scope, objectives, approach, and criteria can be found at the end of the chapter in **About the Audit**.

Observations and Recommendations

Setting priorities and measuring and reporting performance

The RCMP accountability framework is different from those of other police forces

1.15 Many police forces take direction from, and answer to, police advisory boards. The RCMP does not, although it discusses issues with community leaders. Furthermore, through the terms of its policing agreements, it is obligated to take into account the priorities of provinces, territories, and municipalities and is answerable to them on operational matters. Each division prepares an annual report in accordance with its provincial and territorial agreements. As a whole, the RCMP is accountable solely to the federal government, through the Minister of Public Safety and Emergency Preparedness.

Contract clients help set priorities but receive limited information on progress

1.16 Establishing priorities is important as it forms the basis for decisions on the allocation of resources, choices between programs, and the locations of detachments, among other things. Under the terms and conditions of policing service agreements with provinces, territories, and municipalities, the RCMP is to implement its clients' priorities for contract policing and report the extent to which it met them.

1.17 We therefore expected that the RCMP would consult regularly with its clients when setting priorities and that it would monitor and report to them on its progress, consistent with its contract obligations and good business practices. This is important, not only to comply with the agreement but also to maintain good working relations with clients. We reviewed policing contracts and RCMP performance plans and reports both at headquarters and in the regions. Through the audit, we also interviewed representatives of contract policing clients from each province and territory and more than 20 municipalities.

1.18 **The RCMP tracks its priorities and activities but does not measure performance.** To implement its priorities, the RCMP uses a management tool referred as the balanced scorecard. This management tool allows the RCMP to track its progress in carrying out activities and processes. While these activities may be sound management practices, they are not consistently aligned with its clients' priorities. The balanced scorecard tracks activities necessary to produce the outputs that may contribute to outcomes, but it does not provide information on actual outcomes—for example, "Safe homes, safe communities." The RCMP annually establishes initiatives at the federal and divisional levels. Responsibility for each initiative is assigned to an individual, and a series of actions are defined. During the year, the RCMP monitors its progress by noting which actions have been completed. However, this does not give an overall picture of performance.

1.19 The RCMP also monitors the procedural quality of its operations at the detachment level, by conducting "managerial reviews." Each year a limited number of detachments are chosen in each division, and operations are examined in such areas as financial management, shift scheduling, quality of investigations, and custody of evidence.

1.20 **The RCMP consults with provinces and territories, but reporting can be improved.** We found that the RCMP does a reasonable job of consulting with provinces and territories (Exhibit 1.3). There is ongoing dialogue on priorities in each location. Each year, the commanding officer of each RCMP division consults with provincial or territorial representatives to understand their objectives and priorities for the coming year. The commanding officer discusses how well the RCMP can meet provincial and territorial priorities, and the commanding officer shares the RCMP's priorities with them. However, in our review of six provinces and territories we found a formal agreement on their priorities in only one province, and only one in which there was any recorded agreement on the measures to be used to assess performance.

1.21 Reporting against provincial and territorial priorities is generally poor. At the end of a reporting cycle, each division prepares an annual report, which is forwarded to the province or territory, as required by the PPSA and TPSA. However, these reports do not address how well the RCMP did in delivering police services or in implementing a province's or territory's priorities.

Exhibit 1.3 The RCMP discusses priorities with provinces and territories but needs to improve performance reporting

RCMP division	Discuss priorities	Agree on priorities	Agree on performance measures	Report provincial and territorial priorities
New Brunswick	●	○	○	○
Saskatchewan	●	○	○	○
Alberta	●	●	●	◓
British Columbia	●	○	○	○
Northwest Territories	●	○	○	○
Yukon	●	○	○	○

● Yes ○ No ◓ Partial

1.22 **The process is less defined for municipalities and smaller communities.** The Municipal Policing Services Agreement (MPSA) for each municipality provides the framework for the relationship between the municipality, the province, and the RCMP division and detachment. Each of these agreements follows the same format, and allows the municipality to set objectives, priorities, and goals for its municipal police service. Under each MPSA, the detachment commander is required to report on law enforcement and the implementation of the municipality's objectives, priorities, and goals.

1.23 In the municipalities we visited, we found that the RCMP detachment commander consults with the municipalities, but the acceptance, implementation, and reporting against the municipality's priorities are not clear. The reporting relationship between the RCMP and the municipalities varied from a verbal report given to a city council to a half-hour video program. The reports did not clearly address the municipality's priorities. The RCMP does not establish indicators to measure its progress in implementing the communities' priorities; in many cases, it does not have the data needed to measure this performance.

1.24 Smaller municipalities and communities fall under the general provincial police services agreements and do not have their own municipal policing agreements. As a result, there is no contractual requirement for the RCMP to agree on their priorities and report progress against those priorities. However, these are good practices and would be consistent with the RCMP's objectives for community policing. From our interviews, we found that the commanders of RCMP detachments meet with community representatives, often informally. But this practice is not consistent, especially where the detachment provides services to more than one community.

1.25 In small communities, the detachment commander may provide a crime report to the community, which provides minimal statistics on crime and calls for assistance. However, it provides no agreed-upon performance information on how well the RCMP is providing police services. As a result, the RCMP is missing an opportunity to be more responsive to the communities it serves.

1.26 **Recommendation.** The RCMP should, in consultation with the concerned province or territory, establish community plans with representatives of each community it serves, setting out the community's expectations for performance and the RCMP's commitments, their mutual priorities, how progress will be measured, and actions to be taken if the expectations are not achieved.

RCMP's response. We agree. The RCMP recognizes the value of community plans as they facilitate continued communication between the RCMP and the community concerning police services and the community's policing expectations.

The Police Service Agreement states the establishment of policing priorities is the responsibility of the contracting jurisdiction and therefore, the contracting jurisdictions will have to be consulted.

The recommendation to implement community plans will be discussed with the contracting jurisdictions at the Contract Advisory Committee meetings in February 2006 and June 2006.

1.27 **Recommendation.** The RCMP should track its progress toward meeting the agreed-upon performance expectations and should report to the client regularly.

RCMP's response. We agree. As per Article 4.2 of the Provincial Police Service Agreement, the RCMP is obligated to meet regularly with representatives of the Provincial jurisdiction to discuss a variety of issues pertaining to the delivery of policing services including outcomes.

The community plans referred to in Recommendation 1.26 contain a mechanism to track performance expectations and report to the communities. As per the PPSA, this aspect will be discussed with the contracting jurisdictions at the Contract Advisory Committee meetings in February 2006 and June 2006.

Surveys provide limited information on performance

1.28 Since 2003, the RCMP has used surveys at the national level to

- gather perceptions of its performance;
- identify needs for organizational change; and
- develop knowledge about its relationships with the general public; provincial, territorial, and municipal clients; other police forces; and other stakeholders such as Crown prosecutors.

We analyzed these surveys to determine their usefulness as performance data for the RCMP.

1.29 We found that the survey of the general public was useful in providing an indication of the overall level of satisfaction with RCMP performance. Furthermore, the RCMP has made efforts to improve the quality of information gained from these surveys. In 2005, it changed its delivery approach from a mail-out to a telephone survey, which improved response rates from 23 percent to 48 percent. They also began to conduct this survey in multiple languages to gain broader feedback from a variety of Canadians. The general public survey responses show a high level of satisfaction with the RCMP.

1.30 The surveys of the other three groups (provincial, territorial, and municipal clients; other police forces; and other stakeholders) provide similar information on the RCMP's performance. As with the general public survey, these additional surveys focussed on the RCMP's five strategic priorities. However, while the survey of these groups contains some additional questions relevant to the particular groups, the questions may be too general to identify opportunities for improvement. For example, a survey respondent may deal with the RCMP on numerous activities, including DNA analysis, fingerprints, and case files; therefore, their level of satisfaction may vary for each of these different activities. We note that these surveys have been in use for only two years and, while they may provide general impressions, there are opportunities for further improvement before using them as a diagnostic or management tool.

Managing human resources

Inadequacies found in identifying resources required for contract policing

1.31 The RCMP staffs over 600 detachments to meet the needs of hundreds of communities in its provincial, territorial, and municipal contract policing programs. Under the contract policing agreements, the RCMP is responsible for determining the minimum standard of policing needed to maintain law and order and the safety of peace officers. It is also responsible for recommending to its clients the number of peace officers it believes are needed to deliver the services its clients have requested. It is then obligated to provide the number of peace officers requested by its clients.

1.32 We expected that the RCMP would have assessed its human resource needs, both to meet its minimum standard and to be able to demonstrate to its clients the basis for its resource recommendations. We analyzed data from the RCMP Human Resources Management Information System (HRMIS); reviewed internal studies and files; and conducted interviews in numerous detachments, divisions, and headquarters.

1.33 We found that the RCMP has not clearly defined a minimum standard for each province and territory. In 2003, an internal RCMP survey confirmed that there was no clear definition of a minimum standard for provinces, which was seen as a major problem when trying to justify levels of human resources that it requested. Instead, the

RCMP has chosen to only define a minimum standard during negotiations with provinces, which has happened twice during this agreement. The RCMP believes that defining a minimum standard would provide a false sense of flexibility to the contracting jurisdiction and be detrimental to maintaining or augmenting the level of police in the jurisdictions.

1.34 **Recommendation.** The RCMP should, in consultation with each province or territory, clearly define its minimum standard for policing as stated in the Provincial Police Service Agreement.

RCMP's response. We agree. The RCMP defines the "minimum standard" as the minimum number of resources required to provide policing services within a contract jurisdiction. Every year consultation occurs between the contracting jurisdictions and the RCMP, to determine the level of policing services. Should a contracting jurisdiction indicate a desire to reduce the level of policing service to a level, which is assessed by the RCMP to be below an acceptable and safe level, the "minimum standard" is determined using the variables identified in the *Provincial Police Service Agreement: Interpretation and Administrative Procedures*.

The Police Service Agreement provides that this is an area where the contracting jurisdictions have an interest. Consultation will take place at the next Contract Advisory Committee discussions in February 2006 and June 2006.

Communication centres dispatch peace officers to respond to emergencies.

1.35 To estimate how many peace officers are needed to provide requested services in each location, the RCMP uses five different methodologies—a different methodology for each region. In 2001, an internal study found that none of these methodologies was capable of accurately forecasting needs and adequately allocating them by detachment. Each methodology only estimates the number of peace officers needed to address emergencies, such as responding to 911 calls. They do not take into account the number of peace officers needed for community policing aimed at reducing crime. In practice, we found that the number of peace officers that a given province recommended is based more on how much the province is willing to pay for police services than on the resource requirements identified.

1.36 The RCMP is currently piloting a new national model for resource allocation. The new model estimates the level of day-to-day activities that a detachment can handle and examines the impact of various staff allocations on the level of service provided to the community. The RCMP anticipates that this new model will help in identifying resource levels for contract policing based on the expectations and priorities of the community. The RCMP reports positive results from the initial pilots in seven of its detachments.

A peace officer responds to an emergency call for assistance.

1.37 We found that the new model is based only on estimates of time spent on certain activities because the RCMP has no time-recording system for contract policing. To ensure that the model is useful and accurate, the RCMP will need to validate its estimates and assumptions regularly. The RCMP plans to introduce the new model in April 2006.

Inadequacies in filling staff absences leave numerous gaps in detachments

1.38 The RCMP has, for the most part, met its contract obligations to staff contract positions requested by its clients (see also paragraph 1.75). Once detachments are staffed, however, they can still experience short- and long-term absences due to illness, injuries, and parental leave. This is a particular concern in small detachments, which do not have the capacity to cover these shortfalls without transferring in additional peace officers. We therefore expected that the RCMP would have analyzed and addressed its short- and long-term absences in detachments.

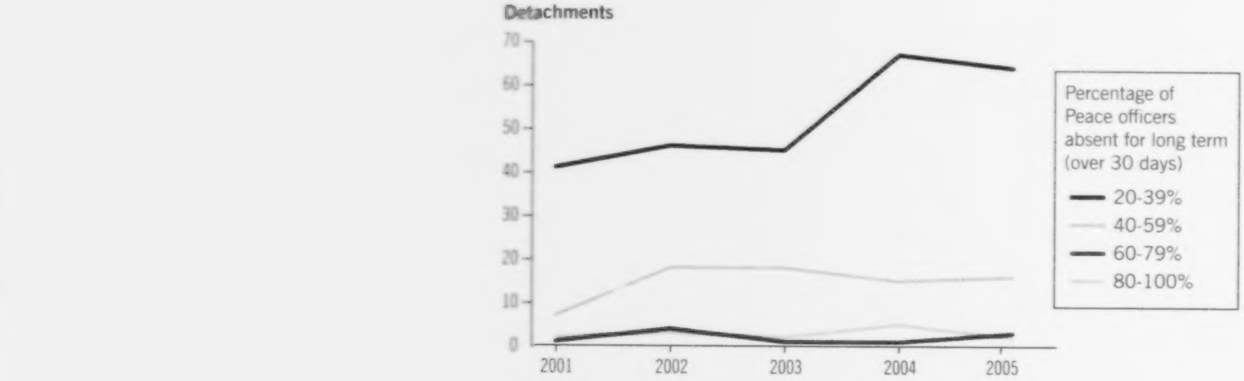
1.39 Instead, we found that the RCMP does not regularly collect and analyze information on its nationwide absences to identify whether headquarters needs to make adjustments to its numbers to cover these absences. The Human Resources Management Information System (HRMIS) captures data on absences, but the data have not been used in managing resource allocation.

1.40 In the absence of RCMP analysis, we requested data from the HRMIS that provided "snapshots" of absences, by division. After looking at various dates during the year, we chose 31 March of each year as the most complete, and compared it to the same date in each of the past five years. In 2005, contract policing had an absence rate of almost seven percent nationwide. At the provincial level, it ranged from one percent to ten percent, and at the municipal level, it varied from zero to thirteen percent.

1.41 Peace officer absences can be more significant at the detachment level, because they are often not replaced, and the remaining peace officers in the detachments must take on the additional work, or it is not done. During the past five years, the number of contract detachments with long-term absences (over 30 days) in excess of 20 percent has increased from a total of 51 to 85 (Exhibit 1.4).

Furthermore, this absenteeism rate does not include peace officers on short-term absences (up to 30 days) due to illness, holidays, suspensions, and training. It also does not include shortages due to unstaffed positions.

Exhibit 1.4 The number of contract detachments with long-term absences in excess of 20 percent has increased



1.42 The situation is aggravated by the lack of established mechanisms to provide short- and long-term replacements for absences. While commanders may use ad-hoc solutions such as temporary redeployment or covering calls for service from neighbouring detachments, these absences can remain open for extended periods of time. This places the RCMP at risk of overloading the remaining peace officers in these detachments.

1.43 **The RCMP is at risk of not meeting future resource demands.** The RCMP faces a number of demographic challenges that have implications for levels of resources and training. It estimates that it will lose from 600 to 700 of its almost 11,000 contract peace officers for each of the next five years through attrition. The RCMP projects a demand for almost 1,400 new cadets a year over the next four years, mostly due to increased demands from the provinces, territories, and municipalities. The current capacity of its training facility in Regina (Depot) provides for only 1,200 graduates annually and cannot be increased in the near term.

1.44 **The RCMP has projects under way.** When faced with absences and resource shortages, there are a variety of alternative approaches available to the RCMP. The RCMP has the following projects under way, which could relieve some of the pressure:

- Since 2004, the RCMP has been piloting a Reserve Program that would allow up to 400 retired and former RCMP officers to be used for temporary deployment and support to front-line police services in British Columbia. At the end of our field work, there were 27 reservists in this program. The RCMP is currently conducting a review of the first year of the pilot program and plans to expand it nationally. If fully implemented, this program would allow for greater flexibility in responding to absences and temporary resource shortages.
- The Lateral Hire Program allows peace officers from other forces to join the RCMP. While the RCMP has had the capability to hire laterally for some time, in 2005 its Pacific Region moved forward with the project and has hired 28 peace officers. While the cost of training a cadet is about $30,000, training a lateral hire costs only $2,000. However, this program is not attractive to potential employees as they cannot transfer their pension contributions to the RCMP pension plan. There is some confusion about why the issue has not been resolved.
- RCMP divisions in the Northwest Territories and Nunavut have used an ad hoc approach to deal with absences by creating relief units. These units provide temporary support to small detachments by filling absences due to illness, injury, and parental leave. The units are also used to patrol communities that do not have a full-time police presence. Although this approach can potentially be applied elsewhere, we found no evidence of other divisions exploring its use.

1.45 While these projects hold promise, the RCMP has not fully assessed other possible opportunities. One alternative approach not sufficiently explored by the RCMP is that of "tiered" policing—a concept that allows employees to perform restricted duties at a cost less than for a fully trained peace officer. Many jurisdictions in England have employed community support officers, who spend much of their time on the street, interacting with the public—a useful program in an urban setting. Another strategy would be to use custodial officers for accompanying prisoners instead of taking RCMP peace officers away from their regular duties. In our opinion, the RCMP has not done enough research to assess the potential benefits and constraints of these alternatives.

1.46 **Recommendation.** The RCMP should, in consultation with the concerned province or territory, take action to ensure that it has the capacity to respond to staff absences and human resource shortages.

RCMP's response. We agree. The RCMP is working to increase capacity at its training facilities to meet our existing and emerging human resource needs. In addition, we are pursuing opportunities to augment this through an increase in lateral entries and expanded use of the reserve program.

Consultation with the provinces and territories is ongoing and is particularly critical during the Annual Reference Level Update (ARLU) process, whereby resource requirements are better refined for the purposes of forecasting needs and resources.

To ensure accurate and timely human resource information, we are examining our information management systems for enhanced business intelligence opportunities to enable the improved tracing of short-term and long-term absences.

Gaps in training may compromise the health and safety of peace officers and the public

1.47 Training is an essential component of any police force. To ensure its peace officers are prepared to fulfill their duties, the RCMP provides new cadets with six months of training at its facility in Regina and an additional six months of on-the-job training. There are also numerous mandatory and specialist training courses that RCMP peace officers take on an ongoing basis. Contract clients expect the RCMP to provide fully trained peace officers. Furthermore, the *Canada Labour Code (CLC) Part II—Occupational Health and Safety*, requires that employers provide health and safety programs to prevent accidents and injury to health arising from, linked with, or occurring in the course of employment. *CLC Part II* provisions also require that employers ensure that the workplace health and safety of every person employed by the employer is protected. This requires the employer to, among other things, investigate, record, and report hazardous occurrences; establish health and safety committees; and provide training to employees. Since 2001, the RCMP has been required to comply with the *CLC Part II*.

1.48 We expected the RCMP to provide sufficiently trained personnel to meet its own service standards and its contract obligations. We also expected that it would comply with applicable provisions of the *Canada Labour Code*. We interviewed staff at headquarters and in the field and reviewed the *CLC Part II* regulations, RCMP health and safety documentation, injury and training reports, and Health and Safety Committee minutes.

1.49 **Non-compliance with *Canada Labour Code Part II*.** In 1999, the RCMP started to develop a safety management program intended to be "equal to, or better than that afforded by the Canada Labour Code." Over the past six years, the RCMP has undertaken a variety of actions, including developing a governance structure, policy, workplace health and safety committees, an inventory of high-risk activities, and training for management and staff. During 2000, each division contributed to a list of 235 high-risk activities, which were subsequently reduced to 17 high-risk areas. During our examination, we found that there was a lack of compliance in some key areas of the *Canada Labour Code Part II*, which are outlined in Exhibit 1.5 and the remainder of this section.

Exhibit 1.5 **There is a lack of compliance with key areas of the *Canada Labour Code, Part II***

Canada Labour Code, Part II requirements	What we found
Employees must	
• report injuries	Accidents and hazardous occurrences are not reported consistently, and there is no mechanism to ensure compliance.
Employers must	
• investigate, record, and report all accidents and other hazardous occurrences	Accidents and hazardous occurrences are not reported consistently to Human Resources and Skills Development Canada (HRSDC), and there is no mechanism to ensure compliance. When accidents and incidents are investigated, there is limited analysis of causal factors and associated costs.
• keep and maintain health and safety records	There are discrepancies between information that is reported internally to the RCMP on accidents and hazardous occurrences and information that is reported to HRSDC.
• provide employees with the information, instruction, training, and supervision necessary to ensure their health and safety at work	A CD on the responsibilities of employees for Part II of the Code was developed and it is mandatory that employees review it. However, according to the RCMP's national occupational health and safety training statistics, only 32 percent of officers have reviewed the CD. In addition, only 35.5 percent of peace officers have requalified in first aid, and 14.5 percent in cardio pulmonary resuscitation (CPR). This can put the safety of both peace officers and the public at risk.
• ensure that supervisors and managers are adequately trained in health and safety and are informed of the responsibilities for this part of the Code	A CD on the responsibilities of managers for Part II of the Code was developed, and it is mandatory for managers to review it. However, according to the RCMP's national occupational health and safety training statistics, only 65 percent of managers have reviewed the CD.
• Ensure that the health and safety at work of every person they employ is protected	The RCMP has acted on each of the identified 17 risk areas (health and safety related hazards). However, we are concerned about the limited results for the risk areas reported in paragraphs 1.47 to 1.53 of this chapter. Of particular concern are two issues: • Access to back-up—peace officers may be exposed to dangerous situations without available back-up. While corrective actions were to be taken in 2002, the RCMP is only now developing a draft policy. • Failure to comply with pistol requalification.

1.50 We noted that the RCMP has made progress in some aspects of the *Canadian Labour Code Part II*, such as setting up workplace health and safety committees; however, by March 2005 only 609 of its 1,604 committee members had been trained in their responsibilities. It is too early to conclude whether these committees are achieving the intended results. The RCMP has also started to assist with the earlier return to work for peace officers who have been absent for medical leave, allowing them to do administrative duties rather than waiting for them to be able to perform front-line police services.

1.51 We found that the RCMP is inconsistent in collecting, analyzing, and reporting costs associated with health and safety, even though its information systems can capture the necessary data. Such inconsistency does not allow for appropriate corrective action to be taken. Contributing factors to this problem include the following:

- lack of consistent tracking and analysis of short-term sick leave; and
- lack of consistent tracking of accidents and hazardous occurrences, days lost, and their costs.

1.52 We analyzed data from the RCMP and found that the costs associated with medical leave, and gradual return to work for those recovering from medical leave, have more than doubled in the past five years.

1.53 **Recommendation.** The RCMP should take immediate action to ensure that it complies with the *Canada Labour Code, Part II*.

RCMP's response. We agree. Efforts are being made to update our national human resource information management system so as to provide a more accurate picture of our status and to improve compliance mechanisms. At the same time, any identified gaps in *Canada Labour Code* training for employees and supervisors are being addressed.

Gaps in completing training for newly graduated cadets

1.54 Newly graduated cadets must finish a six-month field coaching program to complete their training in the field. The field coaching program requires that graduates be coached by a senior peace officer who has completed a coaching course and be paired with the new cadet full-time for their first eight weeks in service. We were informed in interviews that new cadets were not always paired full-time with a coach for the first eight weeks. The RCMP refers to resource shortfalls in the field as a contributing factor. A recent RCMP survey found that

- 16 percent of newly graduated cadets did not receive the full six-month mandatory field coaching;
- 12 percent of coaches were junior peace officers with less than two years of police experience, which means that they were still on probation; and
- 18 percent of the coaches did not have the required coaching course.

These findings are particularly significant because, as a result of increased hiring, over one third of the peace officers working in four provinces and two territories have been in the RCMP less than four years.

1.55 **Recommendation.** The RCMP should ensure that all newly graduated cadets receive the full field coaching program as required.

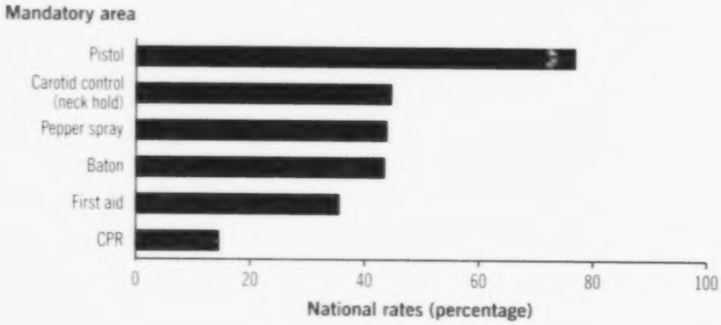
RCMP's response. We agree. The RCMP has a National Field Coaching Program Coordinator in place to manage and implement a modern, six-month Field Coaching program. The process, which pairs newly-graduated cadets with a member who has successfully completed the Field Coaching Course, will be a pre-requisite reflected in the revised policy, with implementation to follow in the next fiscal year.

Failure to requalify and recertify for mandatory training

1.56 To ensure the safety and security of its peace officers and of the public, the RCMP requires that all of the peace officers requalify in the use of pistol, baton, pepper spray, and carotid control (neck hold); and recertify in first aid and CPR. Peace officers must requalify in these skill sets every one to three years, depending on the requirement. Additional requalifications are required for more specialized duties. We analyzed compliance with mandatory requalification and recertification applicable to all RCMP peace officers. The available data were nationwide, including federal policing. It is reasonable to expect that all RCMP peace officers comply with their mandatory training requirements, as these peace officers could be redeployed to respond to emergencies.

1.57 As noted in Exhibit 1.5, of particular concern is the result on requalification in pistols, which was identified in 2001 by the RCMP as one of the 17 health and safety related hazards. Exhibit 1.6 shows national requalification and recertification rates for mandatory training areas. Overall, the number of peace officers that met all six mandatory training requirements dropped from 57 percent in 2003 to 6.2 percent in 2004.

Exhibit 1.6 National requalification and recertification rates for mandatory training areas, 2004



1.58 We found that gaps in training may be preventing the RCMP from meeting its clients' expectations of fully trained peace officers. It may also be leaving itself open to the risk of litigation. The RCMP is not effectively managing the risk of increased litigation as it is not thoroughly analyzing lawsuits and settlements to determine causal factors, trends, and corrective measures that can reduce them in the future.

1.59 Recommendation. The RCMP should ensure that all peace officers remain up-to-date in their mandatory training requalification and recertification.

RCMP's response. We agree. The RCMP recognizes the importance of ensuring a ready workforce and is taking action to address gaps in training and data collection. As per the *Canada Labour Code, Part II*, the RCMP's national Policy Health and Safety Committee continues to closely monitor progress on this training and is working to ensure compliance.

Billing for services provided

1.60 Each year, the RCMP bills the clients of its contract policing services (municipalities, provinces, and territories) over $1 billion for police services. It is important to ensure that clients are not overcharged or undercharged and that they are satisfied with the way their bills are calculated. Clients particularly want to know that they have been billed accurately in the past as they prepare to renegotiate their policing agreements, which all expire in 2012. We looked at whether the RCMP billed its clients in accordance with the policing agreements and whether it applied the terms of the agreements to all clients consistently.

Processes are in place to ensure that clients are billed in accordance with agreements

1.61 We expected that the RCMP would have enough documentation and analysis to support its calculation of billed amounts. We selected a sample of 2003–04 billings to clients and audited the systems and practices in place that calculate, verify, and authorize the amounts billed to contract clients. We did not perform a detailed examination of the accuracy of individual transactions recorded by the RCMP. The work needed to provide such an assurance would have been beyond the scope of this audit.

1.62 We found that the processes used to calculate and bill for contract policing costs are adequate to ensure compliance with the terms of policing agreements. However, certain financial clauses in the policing agreements are open to interpretation. Public Safety and Emergency Preparedness Canada (PSEPC) is responsible for drafting and approving the financial clauses in the agreement on behalf of Canada. The RCMP interprets the clauses to deliver the required services. We found that in certain regions, the RCMP has not applied the same interpretation to its respective clients—thereby billing different rates or amounts for the same services. This could lead to differences that are significant to its clients. For example, we noted two divisions using different methods to calculate the division's administrative cost component, so the clients of one division were billed on a different basis from the clients of the other division.

1.63 RCMP headquarters has made some effort to address the issue of inconsistent interpretation and to reach national consensus. For example, it issued national guidance for calculating administrative costs that are billed to clients. Still, we noted a general lack of adequate and timely guidance from headquarters and no formal action plan for resolving inconsistencies in the calculation of billed administrative costs nationwide.

1.64 At the regional level, we found that review and formal approval of the annual cost calculations were limited before the final billing was sent to its clients. In some regions, there was no evidence of final approval by an appropriate level of authority, such as the regional financial officer or the deputy commissioner. In regions that did have review and approval processes, these often were informal and not fully documented. At the national level of the RCMP, we found that there was no review or approval process for provincial or municipal annual cost calculations.

1.65 **Recommendation.** The RCMP should ensure that it interprets the billing formulas in contract policing agreements, so that the formulas are applied consistently from client to client.

RCMP's response. We agree. The RCMP will ensure that all billing formulas are applied consistently to all clients as per the Policing Agreements.

While financial disputes are rare, there is no established process to address them

1.66 It is normal that disputes over billing practices may occur in large contracts. To ensure client satisfaction and timely, effective resolution of disputes, Public Safety and Emergency Preparedness Canada and the RCMP need to have a formal process in place to resolve disputes with clients. There is a forum to discuss issues related to policing contracts, called the Contract Advisory Committee, which consists of policing officials from Public Safety and Emergency Preparedness Canada, all contract provinces and territories, and the RCMP.

1.67 We found that the RCMP and its contract policing clients have had very few disputes over the administration of the policing agreements, and client relations are good overall. Although the RCMP is currently developing its own dispute resolution process, we noted that PSEPC and the RCMP have not established an integrated approach that clearly defines the federal role and their respective responsibilities for resolving disputes with clients. Furthermore, while PSEPC is responsible for resolving disputes, it has done little to develop any processes for doing so. Policing agreements do stipulate that disputes are to be resolved by PSEPC and the contract policing client, but we found no established process to resolve them. As a result, disputes may not be resolved in a co-ordinated, effective, and timely way. At the time of our audit, a significant dispute with the Northwest Territories still remains unresolved after 12 years (see the case study on page 24 for more details).

1.68 **Recommendation.** The RCMP and Public Safety and Emergency Preparedness Canada should jointly develop a formal dispute-resolution process for the federal government to ensure that issues are dealt with as they emerge.

Departments' response. We agree. While Article 16 of the Police Service Agreements provides a formal dispute resolution mechanism for resolving disputes between the federal government and contract jurisdictions, the RCMP and PSEPC will work together over the coming months to develop a formal dispute resolution process for the federal government to deal with federal issues as they emerge.

1.69 **Provinces and territories were not consulted on changes in the RCMP's organizational structure.** The policing agreements require that before any proposed change in its organizational structure is approved, the RCMP receive the consent of its clients. In 1997, five years after policing agreements were signed, the RCMP moved to a regional administrative structure while retaining a division in each province and territory. We found that while it notified its clients that this change was pending, it did not explicitly seek their consent before proceeding with the reorganization.

1.70 We reviewed correspondence files, interviewed representatives of the RCMP and its clients, and analyzed administrative costs over several years to determine whether the change to regionalization resulted in increased costs to clients. Instead, we found that the overall increase in administrative costs was not caused as much by regionalization as by increased health costs. Introducing a regional structure to consolidate certain redundant activities has resulted in

Dispute remains unresolved between the Northwest Territories and the Government of Canada

In May 1991, the Treasury Board approved a decision requiring federal departments to start charging rental rates at market value on real properties they lease to third parties.

To comply with this new policy, in 1993 the RCMP significantly increased the cost recovery rates for staff housing, which had been below market value. It billed the Government of the Northwest Territories (NWT) for direct costs under the contract policing agreement.

The NWT immediately disputed its responsibility for paying the rent increase and argued that this was a new cost not included in the original agreement. It argues that such an increase would require receiving an equivalent increase in its funding from the federal government.

This unresolved dispute affects federal departments other than the RCMP—most notably the agreement signatory, Public Safety and Emergency Preparedness Canada. The NWT has not paid for the difference in the rent increase, which dates back to 1993 and now totals $8.2 million.

In a letter dated October 2004, the RCMP credited $6.9 million to the NWT, which covered the period from 1993 to 2002. It acknowledged that the slow dispute resolution process had diminished the chances of collecting the disputed sum. It also acknowledged that it is important to establish a better resolution process for the future.

The dispute also spread to Nunavut, which had adopted the same position as the NWT, and had an accumulated unpaid balance of $2.3 million. To fund the shortfall, the RCMP curtailed spending in other programs. The RCMP recently came to an agreement with Nunavut—Nunavut agreed to pay increased costs for pooled housing effective 1 April 2002. This dispute illustrates the negative consequences that result from an inadequate dispute-resolution process.

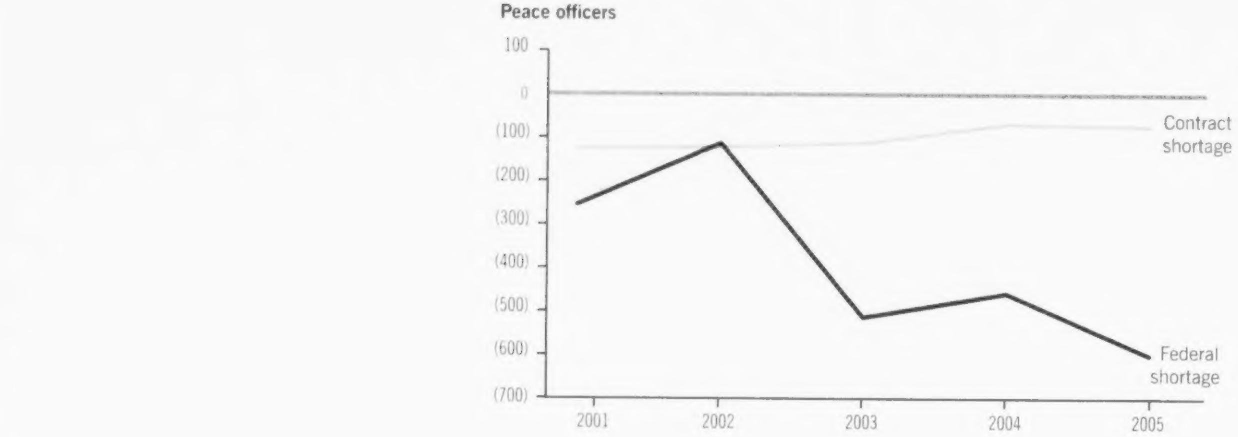
cost savings for contract clients. However, poor communications with clients about the reorganization and subsequent impact on billing has created confusion and misunderstanding among clients about the nature and calculation of the divisional administrative costs billed to the clients.

The RCMP has effectively met its obligations to provide and bill for contract peace officers

1.71 As part of the audit, we expected that the RCMP would bill its clients the appropriate amounts for provincial or municipal policing activities. To determine whether the RCMP was billing provinces the appropriate amount, we reviewed the billing process in six divisions. Since the RCMP also conducts federal policing activities nationwide, we checked to see whether provincial or municipal resources were being used for federal policing activities or vice versa. We obtained data on both the required positions and the actual staff in both federal and contract policing activities and compared vacancy patterns in both activities going back five years.

1.72 As Exhibit 1.7 indicates, we found a distinct difference in vacancy patterns between federal and contract policing activities. Since 2001, the RCMP has for the most part met its contractual obligations to provide the required number of peace officers to its clients, but has done so to the detriment of staffing its federal policing activities.

Exhibit 1.7 Shortage of peace officers for federal and contract policing activities



1.73 We found vacancy rates of as much as 25 percent in certain federal policing units—including drug interdiction and organized crime—located in contract provinces. In allocating its resources, the RCMP has filled its contract policing vacancies first, leaving some federal positions unstaffed. Since 1999, when contract policing clients asked for more peace officers, the clients contributed their share of the added cost. However, the RCMP did not receive a budget increase to fully cover the federal share of the costs. It funded the shortfall by spending less on other programs, including federal policing. By not clearly separating contract and federal policing costs and activities, the RCMP cut back on its federal policing activities. Each time the level of contract policing services increases without a corresponding increase in the federal share of the RCMP's contract budget, the remaining RCMP policing activities suffer. If there was a means to clearly separate contract policing from other activities, such as a separate appropriation, this would contribute to better management of the program and more transparent information for Parliament.

1.74 This situation has arisen because the RCMP's expenditure budget has been managed like its Vote—as a single pot of funds. As a result, while contract clients have funded their increased requirements for peace officers without the RCMP's contract policing budget rising commensurately, the proportion of the RCMP's budget devoted to federal policing has had to decrease proportionally. This means that the full impact is applied to only the non-contract parts of the RCMP's budget—federal policing and other activities.

1.75 For the most part, the RCMP is providing the contract positions that are requested by its contract partners and is billing appropriately.

1.76 **Recommendation.** The RCMP should seek a means of clearly separating the funding, measurement, and reporting of its contract policing activities to avoid adverse impacts on its other activities when contract policing costs change.

RCMP's response. We agree. The RCMP, in consultation with Treasury Board Secretariat, is actively pursuing all viable options to distinctly separate Contract Policing from the other RCMP program activities.

Aboriginal policing

1.77 Providing policing services to First Nations poses unique challenges. Recognizing that police services to First Nations were insufficient, the federal government introduced the First Nations Policing Policy (FNPP) in June 1991. In explaining the need for this policy, the Solicitor General at the time noted that crime rates, particularly for violent crime, are significantly higher in First Nation communities than in the general public. The purpose of the FNPP is to

- provide First Nations, across Canada, access to police services that are professional, effective, culturally appropriate, and accountable to the communities they serve; and
- contribute to improving social order, public security, and personal safety in First Nation communities.

This policy provides the framework for Public Safety and Emergency Preparedness Canada (PSEPC) to negotiate with provinces and First Nations, on behalf of the federal government, for policing services to these communities. For many of these agreements, the RCMP is the police force tasked to provide these services.

RCMP peace officers working with children in Aboriginal communities

1.78 Aboriginal policing is one of the RCMP's primary strategic priorities. Its stated plan is to contribute to safer and healthier Aboriginal communities by contributing to their long-term wellness and safety. It provides policing services to 556 Aboriginal communities under three forms of contractual arrangements:

- The Provincial Policing Services Agreement (PPSA), which is the policing contract with the province, applies to Aboriginal communities that have not entered into their own agreements for policing services. Under this agreement, there are no peace officers specifically dedicated to serve the Aboriginal community. PPSA policing does not provide for any specific commitments to Aboriginal communities beyond those to other rural communities.
- The Aboriginal Community Constable Program (ACCP) is a program that predates the First Nations Policing Policy funded in part by PSEPC. The program provides for a limited number of designated peace officers to serve certain First Nation and other Aboriginal communities. ACCP agreements—negotiated by the province and PSEPC—often assign specific peace officers to spend all of their time serving the community.
- Community tripartite agreements (CTAs) are negotiated by PSEPC, the provinces, and the communities. CTAs are not designed to provide all of the police services required by the First Nation community or replace the Provincial Policing Services Agreement. Rather, they are intended to add to the service already provided by the Provincial Policing Services Agreement.

Exhibit 1.8 summarizes the RCMP agreements for policing services to Aboriginal communities at the time of our audit.

1.79 Community tripartite agreements commit the RCMP to do the following:

- allocate a specified number of RCMP peace officers assigned to serve the community exclusively,
- make best efforts for RCMP peace officers to be "culturally compatible,"
- consult with community leaders on the planned assignment of peace officers, and
- provide community leaders with monthly status reports and other reports upon request.

The agreements commit assigned RCMP peace officers to

- spend all of their time serving the community,
- be physically present in the community at least 80 percent of the time, and
- enforce certain band bylaws.

Agreements are not being implemented as stated

1.80 Community tripartite agreements and the Aboriginal Community Constable Program agreements are designed to ensure that there are RCMP peace officers assigned solely to First Nations communities. We expected that the policing services they provide would meet the requirements of the applicable agreements. To determine this, we reviewed agreements and related policy documents, RCMP activity data on all communities with CTAs, Aboriginal Community Constable Program agreements, and Public Safety and

Exhibit 1.8 RCMP agreements for policing services to Aboriginal communities—a summary

Agreement	Aboriginal communities (total of 556)	Population	Assigned peace officers	Funding arrangement	
				Federal share	Provincial share
Provincial and territorial policing services agreements	266	not available	not applicable	30%	70%
Aboriginal Community Constable Program	175	132,000	120	46%	54%
Community tripartite agreements	115	83,000	203	52%	48%

Emergency Preparedness Canada documentation of police involvement with First Nations communities. We also interviewed members of the RCMP, PSEPC, and provincial and territorial governments, as well as band chiefs and councils and other community leaders of 24 First Nations.

1.81 We found that the RCMP has no time-recording system for contract policing and does not track the amount of time that peace officers assigned under the community tripartite agreements or the Aboriginal Community Constable Program agreements spend in the community. Therefore, it cannot assure a band chief and council or PSEPC that its peace officers spend at least 80 percent of their time in the communities to which they are assigned. In the absence of a time-recording system, we assessed the files of peace officers assigned to serve First Nations communities, to approximate the percentage of activities conducted within their assigned communities. We found that in 2004 on average, more than 40 percent of the files of assigned peace officers originated outside the community—about 50 percent in the case of the Aboriginal Community Constable Program. Meanwhile, peace officers working under the Provincial Policing Services Agreement responded to 60 percent of all calls from communities with CTAs. This suggests that the responses from PPSA peace officers to calls in CTA communities more than offset those of CTA-assigned peace officers away from their assigned community. Exhibit 1.9 summarizes our assessment of whether peace officers under CTAs are meeting the commitments, based on our analysis of data and discussions with community leaders and RCMP peace officers.

1.82 We found that some of the agreements' clauses may not be achievable in all communities. For example, the amount of time that an assigned peace officer's efforts can be focussed in a specific community is dependent on whether there is a detachment in that community. Of the 115 First Nations that had CTAs in 2004, only 24 had a detachment or a policing office on the reserve. In these 24 communities, we noted that 85 percent of the assigned peace officers' files originated from calls in the community. In contrast, only 46 percent of assigned peace officers' files originated from calls in communities without detachments. Making a commitment to give 80 percent of an assigned peace officer's time in communities without detachments may not be feasible, given the existing infrastructure.

1.83 The requirement for a continuous RCMP presence also differs by community. Some First Nations provide security for their communities by establishing community constables. Reporting to the band chief and council, these constables are First Nations staff—not RCMP staff—

and are present in the community to provide information and security awareness. These band members work closely with the RCMP peace officers, who continue to provide policing services. Community constables are generally less expensive than RCMP peace officers, and communities that have them told us that they have generally found that the community constables can work closely with the RCMP in a relationship that serves the community well. An internal RCMP study in Saskatchewan is exploring logistical, legal, and financial implications of formally supporting such initiatives. This option is not presently offered in the First Nations Policing Policy Program. In applying the standard form of agreement for all CTAs, Public Safety and Emergency Preparedness Canada and the RCMP have not kept pace with the changing nature of Aboriginal communities.

1.84 **Recommendation.** Public Safety and Emergency Preparedness Canada should ensure that policing contracts for Aboriginal communities reflect the specific priorities of these communities and commitments for RCMP policing are realistic. The RCMP should also establish community plans specific to Aboriginal communities, as described in one of the earlier recommendations (paragraph 1.26).

Exhibit 1.9 Our assessment of community tripartite agreement commitments

Commitments	Performance	Our assessment
Public Safety and Emergency Preparedness Canada assigns appropriate number of peace officers.	◓	The RCMP fills community tripartite agreement (CTA) positions for which it is funded, but this is often insufficient to meet CTA commitments.
Peace officers are required to serve a community with 100 percent of their duty time.	○	More than 40 percent of assigned peace officers' files originated outside of the community.
Assigned officers are required to be physically present on community 80 percent of the time.	○	Determined mostly by location of detachment relative to community.
Best efforts for RCMP peace officers to be culturally compatible.	●	Most community leaders we spoke with identified positive or improving relations with the peace officers assigned.
The RCMP needs to consult band chief and council regarding who is assigned.	◓	In some communities, the band chief and council are consulted while in others they are not.
Peace officers need to enforce certain band bylaws.	○	Peace officers generally do not enforce band bylaws.
The RCMP needs to provide monthly status reports and special reports upon request.	◓	Some communities were provided with meaningful reports while others received reports that were less so. Reports were not always done on a monthly basis and did not report on the extent to which CTA commitments were being implemented.

● fully complies ◓ partially complies ○ does not comply

Departments' response. We agree. First Nation input on the special needs of their communities has already been obtained and should be reflected in all new and renewed community tripartite agreements, starting in 2006–07. In addition, as part of the overall program evaluation, the department is presently reviewing the Band Constable Program and the Aboriginal Community Constable Program, which provide additional alternatives for addressing specific needs of communities. A decision on these programs will be made by January 2007.

With reference to the recommendation that the RCMP implement community plans, this issue will be discussed with the contracting jurisdictions at the Contract Advisory Committee meetings in February 2006 and June 2006.

Community tripartite agreements affect the RCMP's policing under provincial agreements

1.85 Public Safety and Emergency Preparedness Canada signs agreements that commit the RCMP to providing services through community tripartite agreements. In doing so, however, the Department does not gain assurance from the RCMP that it will be able to meet these commitments with the assigned resources. Since the RCMP is not a party to the agreements, it does not formally agree that it can achieve the commitments made on its behalf by PSEPC. As mentioned in the case study on page 32, Negotiating community tripartite agreements without sufficient resources, a proposed CTA with one First Nation was discontinued when the RCMP stated that it could not provide the expected level of service with the resources defined in the proposed agreement.

1.86 The development of community tripartite agreements (CTAs) has had a direct impact on the RCMP's ability to meet its commitments under the provincial policing services agreements. As new CTAs are established, provincial policing positions are often converted to CTA positions. Over the past five years, provinces have eliminated 36 PPSA positions with the creation of the 58 new CTA positions. Converting positions to service CTAs has effectively reduced the number of peace officers available from local detachments to respond to incidents in the surrounding areas.

Negotiating community tripartite agreements without sufficient resources

Community tripartite agreements (CTAs) commit the RCMP to increase the levels of services provided to First Nations communities. The following examples illustrate two different outcomes caused by insufficient resources negotiated for CTAs.

Case 1. An RCMP detachment was responsible for providing police services to three municipalities, rural areas, and a large reserve with about 2,000 First Nation members. In 2001, it had ten peace officers to provide these services, three of whom worked primarily on the reserve. The RCMP resource-allocation model, used in the province, identified a need for 15 peace officers to properly service the reserve. In September 2002, PSEPC, the Province, and the First Nation signed a CTA to provide a new police office and eight peace officers. Deciding a police office on the reserve would need more than eight peace officers, the RCMP relocated three PPSA peace officers.

As a result, the reserve now has eleven peace officers—four fewer than the RCMP model identified as the minimum needed—but three more than provided through the CTA funding. The detachment was also left with fewer peace officers to service its other policing responsibilities.

Case 2. An RCMP detachment had six peace officers who estimated they spent about half of their efforts providing police services to a small reserve with less than 400 First Nation members. In December 2003, PSEPC, the Province, and the First Nation negotiated a CTA. Learning from its experience in Case 1, the RCMP recommended four peace officers dedicated to serving the community and would not agree to a smaller contingent. The cost of the proposal was greater than what the funding partners were willing to commit; as a result, there has been no CTA established for this community.

1.87 **Recommendation.** Public Safety and Emergency Preparedness Canada should formally include the RCMP in negotiating all new, and renewing all existing community tripartite agreements. In considering commitments, the RCMP should advise on the extent that it can address community priorities with proposed resources.

Departments' response. We agree. The new Service Agreements will address this recommendation. Since the agreements will be signed by the Detachment Commander, the RCMP will have full opportunity to participate in the process and provide advice on the extent to which the RCMP can address community priorities.

Public Safety and Emergency Preparedness Canada is not monitoring the implementation of contracts

1.88 We expected that PSEPC, as the federal government signatory to these agreements and the Department responsible for the First Nations Policing Policy, would monitor the extent to which the agreements are implemented. Instead, we found that PSEPC focussed almost entirely on establishing new agreements and renegotiating existing ones, with little effort given to overseeing existing agreements or tailoring agreements to communities' specific policing needs.

1.89 At the time of our audit, PSEPC was in the process of conducting a program evaluation of its First Nations Policing Policy. The RCMP was also evaluating the effectiveness of its Aboriginal policing program. We note, however, that there was no ongoing monitoring of the RCMP's performance in delivering CTA commitments.

1.90 **Recommendation.** Public Safety and Emergency Preparedness Canada should monitor the RCMP's delivery of community tripartite agreement policing services to ensure that commitments are fulfilled.

Public Safety and Emergency Preparedness Canada's response. We agree. The department is developing a monitoring package, which will be fully implemented in 2006–07, along with Service Agreements and RCMP Community Plans. At the outset, the new process will require each Regional Manager to make a site visit to all the communities with which the department has a police service agreement.

Applicability of the First Nations Policing Policy north of 60° is uncertain

1.91 Recently, confusion has arisen over the applicability of the First Nations Policing Policy (FNPP) to the three territories in the North. The policy was to be established through tripartite agreements and applied consistently in all provinces and territories. The FNPP was to apply to all Indian reserves, to certain other Indian communities on Crown land, and to Inuit communities. There are many Aboriginal communities in the North and 20 RCMP positions funded in part through PSEPC's Aboriginal policing program. PSEPC also developed a framework agreement for community tripartite agreements with the Yukon and established one CTA in Laird River.

1.92 However, in 2003 PSEPC notified the territorial governments that it did not receive a mandate or a budget to pursue FNPP agreements in the territories. Since 2003, there have been no additional designated positions established in the territories and the federal government's commitment to Aboriginal policing in the North is unclear.

1.93 **Recommendation.** Public Safety and Emergency Preparedness Canada should clarify its policy and program responsibilities for Aboriginal policing in the North. This should include whether the First Nations Policing Policy and community tripartite agreements apply to the territories.

Public Safety and Emergency Preparedness Canada's response. We agree. In June 2005, the Federal/Provincial/Territorial (F/P/T) Deputy Ministers approved the creation of a working group of the F/P/T

Assistant Deputy Ministers' Committee on Policing Issues to address the question of the long-term sustainability and effectiveness of the First Nation Policing Policy. The Working Group, as part of its assignment, will look at policing in the Territories, including links to self-government. The Working Group is expected to conclude its work and present a final report by the Spring of 2007. At that time, the department will be better placed to decide on whether to expand the program to the Territories.

Conclusion

1.94 We found that the RCMP establishes priorities with provinces, territories, and municipalities for its policing services, although these discussions seldom result in formal agreements. The RCMP does not consistently set priorities with smaller communities and First Nations communities or adequately measure and report on its performance against the priorities established with its contract policing clients.

1.95 We also found that while the RCMP effectively fulfills its contract obligations to staff the required number of peace officers, it has not addressed the impact of short- and long-term absences due to injury, illness, and parental leave. The RCMP has not done enough research to assess the potential benefits and constraints of various alternative hiring strategies. Gaps in training, qualification, and certification may affect the health and safety of peace officers and the public.

1.96 The RCMP has a reasonable process to ensure that its billing practices are sound. While there have been few disputes, we found inconsistencies between regions in their billing practices. We also found that while the RCMP has mostly met its obligations to staff contract positions, it has done so to the detriment of staffing its federal policing positions.

1.97 The RCMP has not met key contractual commitments of community tripartite agreements, and Public Safety and Emergency Preparedness Canada has not assessed the RCMP's performance to ensure that community tripartite agreements are implemented as intended. Furthermore, CTAs are designed in such a way as to weaken the RCMP's ability to meet its other contract policing commitments.

About the Audit

Objectives

The objectives of our audit were to determine whether

- the RCMP assesses its performance against its contract obligations for providing police services as identified in the Provincial Policing Services Agreement (PPSA);
- the RCMP is training and deploying its contract police workforce with due regard for efficiency and contract obligations;
- the RCMP ensures that all contract policing services provided to clients are billed in accordance with the contract obligations and that an appropriate dispute-resolution process is used to resolve service or billing disputes; and
- Public Safety and Emergency Preparedness Canada has sufficient assurance that the RCMP is meeting its commitments to provide police services on reserves in accordance with the First Nations Policing Policy (FNPP), provincial framework agreements, and applicable community tripartite agreements.

Scope and approach

The audit examined the Federal Government's delivery of policing services to provinces, territories, and their municipalities under the provincial police services agreements and other related agreements. It also included the federal government's delivery of First Nations policing program agreements.

We audited Public Safety and Emergency Preparedness Canada (PSEPC) and the Royal Canadian Mounted Police (RCMP) and sought additional information from other departments as necessary. We conducted interviews, file reviews, and data analyses from the RCMP and PSEPC headquarters in Ottawa. We also conducted interviews and reviewed files and documentation in all divisions and 53 detachments, with contract policing responsibilities. We selected a group of small, medium, and large detachments in urban, rural, and isolated settings—including those having Aboriginal policing responsibilities—to provide reasonable coverage of contracting jurisdictions and a range of policing issues. We also consulted with RCMP clients from provincial, territorial, and municipal governments and First Nation band councils.

While this chapter discusses training and safety in general, we did not audit and do not comment on specific incidents that are under investigation by the RCMP or other bodies.

Criteria

We expected that

- the RCMP set performance expectations including measures of efficiency and effectiveness, and that it monitored and reported against performance expectations in a manner that meets its policing standards and contract obligations;
- the RCMP assessed its human resource needs and provided adequate numbers of trained personnel to meet service standards and its contract obligations;

- the RCMP studied and implemented alternative resource strategies to remain current and cost effective in delivering police services;
- the RCMP assessed its training needs and provided adequate numbers of trained personnel to meet service standards and its contract obligations;
- the RCMP had sufficient documentation and analysis to support its calculation of amounts billed to the provinces in accordance with the Provincial Policing Services Agreement;
- the RCMP resolved disputes arising from amounts billed in a timely manner;
- the RCMP billed provinces only for those resources assigned and used in contract policing in accordance with the PPSA;
- the RCMP billed provinces for their portion of administration, and that any changes to the organizational structure were agreed upon with the province in accordance with the PPSA;
- the RCMP delivered policing services that meet the requirements of community tripartite agreements; and
- Public Safety and Emergency Preparedness Canada collected and analyzed sufficient information to conclude whether the RCMP was meeting its contract obligations for CTAs.

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Appendix List of recommendations

The following is a list of recommendations found in Chapter 1. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Departments' response
Setting priorities and measuring and reporting performance	
1.26 The RCMP should, in consultation with the concerned province or territory, establish community plans with representatives of each community it serves, setting out the community's expectations for performance and the RCMP's commitments, their mutual priorities, how progress will be measured, and actions to be taken if the expectations are not achieved. **(1.16–1.25)**	We agree. The RCMP recognizes the value of community plans as they facilitate continued communication between the RCMP and the community concerning police services and the community's policing expectations. The Police Service Agreement states the establishment of policing priorities is the responsibility of the contracting jurisdiction and therefore, the contracting jurisdictions will have to be consulted. The recommendation to implement community plans will be discussed with the contracting jurisdictions at the Contract Advisory Committee meetings in February 2006 and June 2006.
1.27 The RCMP should track its progress toward meeting the agreed-upon performance expectations and should report to the client regularly. **(1.16–1.25)**	We agree. As per Article 4.2 of the Provincial Police Service Agreement, the RCMP is obligated to meet regularly with representatives of the Provincial jurisdiction to discuss a variety of issues pertaining to the delivery of policing services including outcomes. The community plans referred to in Recommendation 1.26 contain a mechanism to track performance expectations and report to the communities. As per the PPSA, this aspect will be discussed with the contracting jurisdictions at the Contract Advisory Committee meetings in February 2006 and June 2006.

[illegible]	[illegible]
Managing human resources	
1.34 The RCMP should, in consultation with each province or territory, clearly define its minimum standard for policing as stated in the Provincial Police Service Agreement. **(1.31–1.33)**	We agree. The RCMP defines the "minimum standard" as the minimum number of resources required to provide policing services within a contract jurisdiction. Every year consultation occurs between the contracting jurisdictions and the RCMP, to determine the level of policing services. Should a contracting jurisdiction indicate a desire to reduce the level of policing service to a level, which is assessed by the RCMP to be below an acceptable and safe level, the "minimum standard" is determined using the variables identified in the *Provincial Police Service Agreement: Interpretation and Administrative Procedures*. The Police Service Agreement provides that this is an area where the contracting jurisdictions have an interest. Consultation will take place at the next Contract Advisory Committee discussions in February 2006 and June 2006.
1.46 The RCMP should, in consultation with the concerned province or territory, take action to ensure that it has the capacity to respond to staff absences and human resource shortages. **(1.38–1.45)**	We agree. The RCMP is working to increase capacity at its training facilities to meet our existing and emerging human resource needs. In addition, we are pursuing opportunities to augment this through an increase in lateral entries and expanded use of the reserve program. Consultation with the provinces and territories is ongoing and is particularly critical during the Annual Reference Level Update (ARLU) process, whereby resource requirements are better refined for the purposes of forecasting needs and resources. To ensure accurate and timely human resource information, we are examining our information management systems for enhanced business intelligence opportunities to enable the improved tracing of short-term and long-term absences.
1.53 The RCMP should take immediate action to ensure that it complies with the *Canada Labour Code, Part II*. **(1.47–1.52)**	We agree. Efforts are being made to update our national human resource information management system so as to provide a more accurate picture of our status and to improve compliance mechanisms. At the same time, any identified gaps in *Canada Labour Code* training for employees and supervisors are being addressed.

Recommendation	Departments' response
1.55 The RCMP should ensure that all newly graduated cadets receive the full field coaching program as required. **(1.54)**	We agree. The RCMP has a National Field Coaching Program Coordinator in place to manage and implement a modern, six-month Field Coaching program. The process, which pairs newly-graduated cadets with a member who has successfully completed the Field Coaching Course, will be a pre-requisite reflected in the revised policy, with implementation to follow in the next fiscal year.
1.59 The RCMP should ensure that all peace officers remain up-to-date in their mandatory training requalification and recertification. **(1.56–1.58)**	We agree. The RCMP recognizes the importance of ensuring a ready workforce and is taking action to address gaps in training and data collection. As per the *Canada Labour Code, Part II*, the RCMP's national Policy Health and Safety Committee continues to closely monitor progress on this training and is working to ensure compliance.
Billing for services provided	
1.65 The RCMP should ensure that it interprets the billing formulas in contract policing agreements, so that the formulas are applied consistently from client to client. **(1.61–1.64)**	We agree. The RCMP will ensure that all billing formulas are applied consistently to all clients as per the Policing Agreements.
1.68 The RCMP and Public Safety and Emergency Preparedness Canada should jointly develop a formal dispute-resolution process for the federal government to ensure that issues are dealt with as they emerge. **(1.66–1.67)**	We agree. While Article 16 of the Police Service Agreements provides a formal dispute resolution mechanism for resolving disputes between the federal government and contract jurisdictions, the RCMP and PSEPC will work together over the coming months to develop a formal dispute resolution process for the federal government to deal with federal issues as they emerge.
1.76 The RCMP should seek a means of clearly separating the funding, measurement, and reporting of its contract policing activities to avoid adverse impacts on its other activities when contract policing costs change. **(1.71–1.75)**	We agree. The RCMP, in consultation with Treasury Board Secretariat, is actively pursuing all viable options to distinctly separate Contract Policing from the other RCMP program activities.

Recommendation	Departments' response
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1.76 The RCMP should seek a means of clearly separating the funding, measurement, and reporting of its contract policing activities to avoid adverse impacts on its other activities when contract policing costs change. (1.71–1.75)	We agree. The RCMP, in consultation with Treasury Board Secretariat, is actively pursuing all viable options to distinctly separate Contract Policing from the other RCMP program activities.

Recommendation	Departments' response
Aboriginal policing	
1.84 Public Safety and Emergency Preparedness Canada should ensure that policing contracts for Aboriginal communities reflect the specific priorities of these communities and commitments for RCMP policing are realistic. The RCMP should also establish community plans specific to Aboriginal communities, as described in one of the earlier recommendations (paragraph 1.26). **(1.80–1.83)**	We agree. First Nation input on the special needs of their communities has already been obtained and should be reflected in all new and renewed community tripartite agreements, starting in 2006–07. In addition, as part of the overall program evaluation, the department is presently reviewing the Band Constable Program and the Aboriginal Community Constable Program, which provide additional alternatives for addressing specific needs of communities. A decision on these programs will be made by January 2007. With reference to the recommendation that the RCMP implement community plans, this issue will be discussed with the contracting jurisdictions at the Contract Advisory Committee meetings in February 2006 and June 2006.
1.87 Public Safety and Emergency Preparedness Canada should formally include the RCMP in negotiating all new, and renewing all existing community tripartite agreements. In considering commitments, the RCMP should advise on the extent that it can address community priorities with proposed resources. **(1.85–1.86)**	We agree. The new Service Agreements will address this recommendation. Since the agreements will be signed by the Detachment Commander, the RCMP will have full opportunity to participate in the process and provide advice on the extent to which the RCMP can address community priorities.
1.90 Public Safety and Emergency Preparedness Canada should monitor the RCMP's delivery of community tripartite agreement policing services to ensure that commitments are fulfilled. **(1.88–1.89)**	We agree. The department is developing a monitoring package, which will be fully implemented in 2006–07, along with Service Agreements and RCMP Community Plans. At the outset, the new process, will require each Regional Manager to make a site visit to all the communities with which the department has a police service agreement.

Recommendation	Departments' response
1.93 Public Safety and Emergency Preparedness Canada should clarify its policy and program responsibilities for Aboriginal policing in the North. This should include whether the First Nations Policing Policy and community tripartite agreements apply to the territories. **(1.91–1.92)**	We agree. In June 2005, the Federal/Provincial/Territorial (F/P/T) Deputy Ministers approved the creation of a working group of the F/P/T Assistant Deputy Ministers' Committee on Policing Issues to address the question of the long-term sustainability and effectiveness of the First Nation Policing Policy. The Working Group, as part of its assignment, will look at policing in the Territories, including links to self-government. The Working Group is expected to conclude its work and present a final report by the Spring of 2007. At that time, the department will be better placed to decide on whether to expand the program to the Territories.

Report of the Auditor General of Canada to the House of Commons—November 2005

Main Table of Contents

Matters of Special Importance—2005
Main Points—Chapters 1 to 8

Chapter 1 Royal Canadian Mounted Police—Contract Policing

Chapter 2 The Quality and Reporting of Surveys

Chapter 3 Canada Revenue Agency—Verifying Income Tax Returns of Individuals and Trusts

Chapter 4 Managing Horizontal Initiatives

Chapter 5 Support to Cultural Industries

Chapter 6 Elections Canada—Administering the Federal Electoral Process

Chapter 7 Indian and Northern Affairs Canada—Meeting Treaty Land Entitlement Obligations

Chapter 8 Other Audit Observations

Appendices

2005

Report of the
Auditor General of Canada
to the House of Commons

NOVEMBER

Chapter 2
The Quality and Reporting of Surveys

Office of the Auditor General of Canada

The November 2005 Report of the Auditor General of Canada comprises Matters of Special Importance—2005, Main Points—Chapters 1 to 8, eight chapters, and appendices. The main table of contents is found at the end of this publication.

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Chapter

2

The Quality and Reporting of Surveys

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Table of Contents

Main Points 1

Introduction 3

The importance of surveys for program management and reporting 3
Standards for survey quality exist 3
Public opinion surveys commissioned by the federal government 4
Focus of the audit 5

Observations and Recommendations 6

Reporting the quality of surveys 6

Parliamentarians cannot determine the quality of surveys 6

Quality of public opinion surveys 9

The quality of public opinion surveys is a concern 9

Leadership for the quality of public opinion surveys 13

Government-wide leadership for the quality of public opinion surveys is limited 13
Government-wide leadership for the quality of public opinion surveys has been important 13
The Treasury Board has defined a government-wide leadership role for the quality of public opinion surveys 14
The Public Opinion Research Directorate has interpreted its role in a limited way 15
The government-wide leadership role for the quality of public opinion surveys is not adequately fulfilled 17
The Public Opinion Research Directorate's advice on survey quality is informal 18
Complete information on public opinion surveys is not available in final reports 21

Conclusion 23

About the Audit 24

Appendix

List of recommendations 27

The Quality and Reporting of Surveys

Main Points

What we examined

We examined the presentation of survey results in all 2003–04 departmental performance reports. We also examined two of the most important indicators of the quality of surveys conducted under contract by private research firms for federal departments and agencies in the same period. We focussed on whether the federal government provides leadership for survey quality in a way that enables departments and agencies to produce commissioned surveys of sufficient quality for their intended use. We also looked at whether government-wide leadership contributes to consistently high-quality surveys across government. We examined the specific roles played by the Treasury Board Secretariat and by the Public Opinion Research Directorate in Public Works and Government Services Canada. We looked at Statistics Canada surveys only for comparative purposes and not as part of the audit.

Why it's important

The government can use information gathered through surveys for a variety of purposes, such as understanding the views of Canadians on government priorities and policies, improving the management of departments and agencies, and monitoring their performance.

Information generated by surveys must be of good quality if it is to be credible and useful to parliamentarians, government managers, and Canadians, especially when it concerns the performance of government programs. Deputy ministers and agency heads need to be confident about the quality of any survey data included in their departmental performance reports. This is because they sign formal statements that the reports have been prepared according to certain principles designed to assure readers that, among other things, the information in the reports is accurate and any weaknesses and limitations of the data are disclosed properly. Poor-quality survey results presented in performance reports could give a misleading picture of how well programs are performing. Furthermore, there is a risk that inaccurate data from surveys could be used in government decision making.

While the cost of public opinion surveys commissioned by the federal government may be relatively small (between $11 million and $15 million per year), the cost of programs addressed by these surveys is in the billions of dollars. The growth in the number of surveys in recent years underscores the importance of assuring their quality. It is important for Canadians, especially those participating in federal government surveys, to be confident that the results will be of sufficient quality for their intended use.

What we found

- There is insufficient reporting on the quality and limitations of survey results in the 2003–04 departmental performance reports. Without this information, readers lack the means to judge the reliability of the data.
- Two important indicators of the quality of public opinion surveys—that is, population coverage and response rates—raise issues of quality in the surveys commissioned by departments and agencies in 2003–04. These issues signal potential problems that are of concern to us.
- Individual departments and agencies are responsible for the quality of surveys conducted for them. However, Treasury Board policies assign a range of responsibilities for the quality of federally contracted surveys to the Public Opinion Research Directorate. The Directorate is not adequately fulfilling key aspects of those responsibilities that would contribute to survey quality.

The Department and the Treasury Board Secretariat have responded. Public Works and Government Services Canada and the Treasury Board Secretariat are in general agreement with our recommendations. Their respective responses are included throughout the chapter.

Introduction

The importance of surveys for program management and reporting

2.1 Over the past few decades, the federal government has increasingly asked Canadians to participate in many different surveys. Surveys conducted by the federal government, such as the Census, gather important information about Canadians that is necessary for governments to manage its programs well. The private sector also conducts market research, media, and political polling. The recent growth in the number of surveys may have increased the burden on respondents and contributed to declining response rates. Such trends raise questions about the quality of these surveys.

2.2 The federal government can use information gathered through surveys for a variety of purposes, such as understanding the views of Canadians on government priorities and policies, and improving the management of departments and agencies and monitoring their performance. If the quality of surveys is unknown or questionable—for example, leading to results that may not accurately reflect the views of Canadians—then the government risks managing with misleading information.

2.3 The annual departmental performance reports are the key mechanism through which departments and agencies report information on their performance to Parliament. The reports frequently present information obtained from various surveys, including Statistics Canada surveys, contracted surveys, and departmental in-house surveys. Some of these are intended to determine how well a department or agency is performing. If parliamentarians are to rely on information in the departmental performance reports, it is important that the survey data be of sufficient quality for the purpose of reporting. Departments risk misleading Parliament about the performance of their programs if survey results reported in their performance reports are not accurate.

Standards for survey quality exist

2.4 Domestic and international standards have been developed for conducting surveys and reporting the results to clients. Domestically, the quality standards followed by Statistics Canada are generally recognized as being high. Statistics Canada applies these standards to the surveys funded from its own budget as well as to the cost recovery services it provides to other federal departments. While surveys done by other federal departments and agencies are not subject to Statistics Canada's standards, the quality of the Agency's survey work can serve as a good example for others. The market research industry has also developed standards for survey research.

2.5 Beyond Canada, the International Organization for Standardization recently drafted guidelines for the quality of surveys and for the reporting of surveys. The Office of Management and Budget, in the U.S., also recently asked a committee of survey experts to recommend standards on various issues addressing survey quality that would be eventually applied to all U.S. government departments that collect information from the public. These and other standards can provide a basis for analyzing and determining the overall quality of individual surveys in light of their intended use.

Public opinion surveys commissioned by the federal government

2.6 Public opinion surveys and other forms of public opinion research contracted to the private sector by the federal government increased by 300 percent over a nine-year period to nearly 600 projects in 2003–04. The cost of contracted public opinion research projects in 2003–04, including both quantitative and qualitative research (for example, focus groups), was $25.4 million; between $11 million and $15 million of this amount was spent on 388 quantitative research projects (that is, surveys). Although these expenditures may not be a large part of their total budgets, departments and agencies could be using survey information, along with other types of information, to make important decisions about their programs. While we were unable to estimate the total cost of the programs addressed by these surveys, the information we found suggests that the contracted surveys reported in the 2003–04 departmental performance reports related to programs with budgets ranging from $400,000 to $1.9 billion. We estimated that the number of Canadians contacted for federally commissioned public opinion surveys has potentially reached over one million Canadians annually.

2.7 Public opinion surveys commissioned to private research firms are subject to review by the Public Opinion Research Directorate (PORD), which is now located in Public Works and Government Services Canada (PWGSC). The Directorate currently has a staff of 12 and an annual budget of about one million dollars. In its *Public Opinion Research in the Government of Canada 2003–04 Annual Report*, the Directorate states that it acts as a "public opinion research centre of expertise" that contributes to ensuring "the highest possible quality of research" for the federal government. It further states that its activities include giving advice, providing methodology guides, and sharing information with the government research community, along with other co-ordinating functions.

2.8 According to the Treasury Board Contracting Policy, public opinion research in the federal government is "the planned gathering… of opinions, attitudes, perceptions, judgments, feelings, ideas, reactions, or views." The information is collected using quantitative or qualitative methods, from persons, businesses, institutions, or other entities.

2.9 Individual departments and agencies are responsible for the quality of public opinion surveys that they commission and pay for. If they demand high-quality surveys in their contracts with firms and do not receive the expected level of quality, then the departments can withhold payment. At the same time, Treasury Board policies also require that the Public Opinion Research Directorate review and provide advice on the methodologies of the proposed surveys before they go to the PWGSC contracting unit that produces the contract on behalf of the department commissioning the survey. The Directorate is also required to provide survey expertise to this contracting unit during the process of determining which private research firms have the capability to conduct surveys. From among the qualifying research firms, departments may then select firms for individual survey projects. After the research is completed, departments are required to send copies of the final research reports to PORD to be deposited with both the Library of Parliament and Library and Archives Canada.

Focus of the audit

2.10 The objectives of this audit were

- to determine whether departments and agencies provide sufficient information in their departmental performance reports about the quality of the data produced by surveys to demonstrate that they are fit for use in reporting performance to Parliament,
- to describe some key elements of the quality of surveys that are conducted for federal departments and agencies by private research suppliers and processed through the Public Opinion Research Directorate, and
- to assess whether the federal government is exercising leadership in ensuring the quality of surveys conducted by departments and agencies.

2.11 We reviewed all 90 departmental performance reports for 2003–04 and found that 64 contained information from a variety of surveys. In these 64 reports, there were 209 references to surveys. We also examined 49 of the 388 quantitative surveys listed in a PORD database of public opinion surveys contracted out to private research firms in 2003–04. The 49 surveys consisted of 16 high-value surveys and a random sample of 33 of the remainder. We reviewed the policy framework governing the planning, contracting, and reporting of surveys and how this framework worked in practice. We also interviewed staff from 10 of the 17 departments and agencies that commissioned the surveys drawn from the PORD database.

2.12 During 2003–04, the Public Opinion Research Directorate was part of Communication Canada, which was disbanded on 31 March 2004. The Directorate then became part of PWGSC.

2.13 For more information on our audit scope and approach, including our sampling method and quality issues, see **About the Audit** at the end of the chapter.

Observations and Recommendations

Reporting the quality of surveys

Parliamentarians cannot determine the quality of surveys

2.14 The Treasury Board Secretariat *Preparation Guide—Departmental Performance Reports* (2003–04) aims "to provide parliamentarians and Canadians with high-quality information about the plans and achievements of the Government of Canada." To do this, departmental performance reports (DPRs) should provide "clear, complete, concise, and credible information on departmental financial and non-financial performance." Departments should explain "why the public can have confidence in the methodology and data used to substantiate performance." Reports should "give readers the means to make informed decisions about the reliability of the performance information [provided]." While these broad principles apply to all information in DPRs, they do not provide sufficient guidance on disclosing the quality of survey data in the reports.

2.15 However, specific requirements have been developed elsewhere for the disclosure of information about surveys when survey results are included in accountability documents, such as departmental performance reports. The American Association for Public Opinion Research (AAPOR), which represents the survey research industry, has standards for the minimum disclosure of information about surveys, including their quality. The Office of Management and

Budget, in the U.S., has identified standards for "short-form" reporting, such as departmental performance reports. These standards are intended to ensure that consumers of survey data have sufficient information about the survey to judge the quality of the resulting data.

2.16 Given the broad reporting principles of the Treasury Board Secretariat and the availability of other public and private-sector reporting standards for the disclosure of information about survey quality, we expected that basic information about surveys would accompany the presentation of survey data in DPRs. We identified key elements of data quality common to these standards that could reasonably be expected to be found in a departmental performance report. To determine the adequacy of the reporting of the basic quality of surveys to Parliament, we looked at all 90 departmental performance reports submitted to Parliament in 2003–04. In 64 of these reports, there were 209 references to surveys, including those co-ordinated by the Public Opinion Research Directorate, and from Statistics Canada and a variety of other sources. Exhibit 2.1 lists these key elements, explains why they are important, and presents what we found in the 2003–04 DPRs.

2.17 Overall, we found that none of the 209 references contained all of the information listed in Exhibit 2.1. Key indicators of survey quality were often missing, notably response rates, descriptions of sampling frames, and confidence intervals. Because there was so little information about survey methods or about the quality of the resulting data, readers of departmental performance reports lack a sufficient basis for judging whether the data are accurate enough for the intended use of the survey. In this context, the main use of survey results is for departments' accountability to Parliament. Ideally, this information could be disclosed in a footnote or endnote, as follows:

> Data reported are from the [survey name] conducted by [firm name] for [department name]. A non-proportional stratified random sample of the target population [population size] was selected using random-digit dialing. The response rate for the telephone survey was [percent], with a final sample size of [size] and a confidence interval [for example, CI=4.0 percent @ 95 percent]. All estimates have been weighted to reflect proper geographic distribution. The sample excluded people under the age of [age]. Data were collected from [date]. The final report is available at the following Web site [address].

2.18 The *Preparation Guide—Departmental Performance Reports (2003-04)* requires that deputy ministers and agency heads sign a Management Representation Statement in their performance reports. This formal statement states that the reports have been prepared according to certain principles, designed to assure readers that, among other things, the information in the reports is accurate and that any weaknesses and limitations are disclosed properly. Therefore, deputy ministers and agency heads must be confident that the survey results are of sufficient quality to be reported in the performance reports and that the risk that the survey information will mislead Parliament is minimal. However, the Preparation Guide does not currently provide managers with guidance on how to support deputy ministers and agency heads in taking this step.

Exhibit 2.1 Reporting of key survey information in departmental performance reports

Key information	Why it is important	Percentage of 209 references reported
Name of survey	The name of the survey identifies it and distinguishes it from similar or previous surveys.	23%
Response rate	The response rate is an important indicator of data quality. Low response rates raise the risk of biased results.	12%
Sample size	The sample size influences the possible range of sampling error due to chance. Small sample sizes are more likely to produce estimate errors due to chance.	13%
Confidence interval (also known as "precision")	The confidence interval relates directly to the sample size. Although it shows how precise the observations are, it does not indicate the amount or direction of bias due to sources of non-sampling error, such as low response rate.	1%
Description of target population	The target population is the group of people that the sample is intended to describe.	91%
Description of the sampling frame	The sampling frame is any list, material, or device that identifies and allows access to elements of the survey population. Understanding the sampling frame provides important information about potential gaps in the coverage of a survey.	12%
Reference to a final report	A reference to a complete final report containing a detailed description of methodology is important so that users can fully understand how the survey was done and can replicate the survey to see if they get similar results.	12%
When the survey was conducted	The timing of a survey can be important when interpreting results. Data can be out of date or may have been collected immediately following a significant event that temporarily affected the findings.	78%

2.19 **Recommendation.** The Treasury Board Secretariat's annual *Preparation Guide—Departmental Performance Reports* should ask departments and agencies to ensure that

- references to survey data are accompanied by a basic description of how the survey was conducted, along with key indicators of data quality and any data limitations;
- this information is readily accessible through footnotes or endnotes; and
- more detailed methodological information is publicly accessible, preferably through an Internet link to the final survey report.

The Treasury Board Secretariat's response. Through its guidelines on the preparation of departmental performance reports, the Treasury Board Secretariat encourages departments to explain in their reports why the reader can have confidence in the methodology and data used to substantiate performance. Among other things, good-quality public performance reports should be balanced, easy to understand, and unburdened by large amounts of technical detail. The Secretariat recognizes that reasonable documentation of survey methodology, presented in an unobtrusive manner, can enhance the quality of a public performance report. The Secretariat will address the reporting of survey methodology in upcoming versions of its guidelines and will continue to work with departments to improve the quality of reporting to Parliament.

Quality of public opinion surveys

The quality of public opinion surveys is a concern

2.20 In addition to how well the quality of surveys is reported in departmental performance reports, we are also concerned about the quality of the surveys themselves. The quality of surveys is important, not only for reporting in DPRs, but for other uses by the departments. We focussed on those public opinion surveys commissioned by departments and agencies and reviewed by the Public Opinion Research Directorate (PORD). (All references to surveys from this point are to public opinion surveys commissioned by departments and agencies and reviewed by the Public Opinion Research Directorate.)

2.21 While the federal government has identified industry standards to be applied to public opinion surveys co-ordinated by PORD, such as the need to pre-test questions, the government has not established benchmarks that would provide specific cut-off measures for minimum quality (for example, surveys with response rates below a certain percentage would be considered of poor quality). By contrast, the U.S. Office of Management and Budget asked a committee of survey experts to develop survey standards for all federal departments collecting information from the public. These proposed standards and guidelines for statistical surveys provide some benchmarks for describing the quality of surveys.

2.22 The Directorate receives final reports on the surveys from the departments commissioning these surveys. We examined 49 survey files from 2003–04 that were drawn from a PORD database. These included 16 high-value and 33 randomly sampled files, of which 45 contained final survey reports. We looked at two of the more important indicators of survey quality—population coverage and response rates—that have become of increasing concern to government, academic, and private sectors. These indicators can signal the risk of potential bias in survey results.

Sampling frame—Any list, material, or device that identifies and allows access to the elements of the survey population.

2.23 **Population coverage.** When a **sampling frame** excludes a segment of the target population, the result is population under-coverage. If the excluded segment of the population is relatively large and has different views from those who were contacted, the results of the survey could be biased. When the list includes people who are not part of the target population, the result is population over-coverage. For example, a survey that draws conclusions about attitudes of youth has to ensure that all youth are properly included and that adults are excluded. As well, the method by which survey information is collected may have an impact on the population covered. For example, telephone surveys using land line-based random digit dialing would exclude households that do not have a land line-based telephone.

2.24 The federal government has not established benchmarks for population coverage. By contrast, guidelines proposed by the U.S. Office of Management and Budget recommend that sampling frames cover at least 95 percent of the target population and that, when the coverage falls below a benchmark of 85 percent, an evaluation of the potential for bias be done. We expected that, at a minimum, all final survey reports would include a discussion about population coverage and resolve any questions about the potential for bias.

2.25 While the final reports for 9 of the 13 high-value surveys and 17 of the 32 randomly sampled surveys we examined described the method used to contact respondents, few (3 of the high-value surveys and 3 of the randomly sampled surveys) contained a discussion of population coverage—that is, whether parts of the population were systematically excluded or over-represented. Overall, population coverage was rarely discussed in the final reports of the surveys we examined.

Response rate—The proportion of eligible respondents selected to participate in a survey that actually participated.

2.26 **Response rate. Response rates** are another key indicator of whether survey results accurately reflect the views of the target population. Although a low response rate does not necessarily indicate a bias in the results, an extremely low response rate should always be a concern, especially where a sound analysis of potential differences between respondents and non-respondents is not possible or has not been done. A 2002 study of response rates conducted by the Professional Marketing Research Society found that response rates have been steadily declining, from an average of 19 percent in 1997 to an average of 13 percent in 2002 for omnibus telephone surveys. A similar trend was found for one-time surveys.

2.27 While low response rates do not mean that survey data are necessarily unrepresentative or biased, the risk of potential bias occurring rises as response rates fall. According to our advisory panel of national and international experts on surveys, a clear statement about the representativeness of sampled respondents should always accompany a report presenting survey findings. The U.S. Office of Management and Budget advisors recommend that an analysis be done when the response rates suggest the potential for bias and that additional analyses determining sample representation be mandatory when such rates fall below their proposed benchmark of 80 percent.

2.28 We expected that all final survey reports would provide the response rate and include an analysis and discussion of the representativeness of the sample. We found that 10 of the 13 high-value surveys and only 14 of the 32 randomly sampled surveys either reported a response rate or provided information to calculate a response rate in their final survey reports.

2.29 Because the risk of potential bias rises as response rates fall, we also examined whether the survey reports contained an analysis of whether respondents were similar to non-respondents at three risk levels: 80, 50, and 20 percent response rates. We found that, of the 24 final survey reports providing information on response rates, only 3 offered the expected analysis of potential bias. All 3 surveys were between the 20 and 50 percent risk level, with response rates of 45, 42, and 31 percent. None of the remaining 21 survey reports included the expected analysis, and 9 of these surveys were at the highest risk level with response rates under 20 percent.

2.30 We then examined the range and average for the response rates. We found that the response rates for the high-value surveys varied from 12 percent to 52 percent, with an average response rate of 29 percent. The response rates for the randomly sampled surveys varied from 8 percent to 66 percent, with an average response rate of 32 percent. While the number of final survey reports with response rates was insufficient for us to generalize our findings to all of the federally commissioned 2003–04 surveys, we are concerned about what may be a more widespread absence of an analysis of the potential for bias related to response rates.

2.31 If a small proportion of people agree to participate in a survey, report readers should question whether their responses represent those who were also contacted but did not participate. To be considered unbiased, a response rate of 10 percent means that the responses of 10 out of every 100 people should represent the range of responses of the 90 others contacted who did not participate in the survey. Even with an analysis of the potential for bias, the quality of surveys with such low response rates is—by any benchmark—in doubt and should be of concern to the government.

2.32 In our view, while the required quality of surveys is determined by their intended use, there must still be a minimum level of quality for any use. The lack of analysis to determine whether respondents represent the target population is also a concern. Both of these issues raise questions about the quality of the surveys.

2.33 Although the federal government has identified industry standards as those to be applied to surveys, these standards do not provide benchmarks to help departments determine the quality of surveys, including for the two indicators we examined. Therefore, we are concerned that departments may not be able to determine whether the surveys they commission are of sufficient quality for their intended use. At present, only Statistics Canada has standards for all major quality elements that it applies to all of its own surveys on a case-by-case basis.

2.34 For two of the key indicators—population coverage and response rates, we could not form a conclusion about the quality of the 2003–04 surveys we examined because the federal government has set no benchmarks. Nonetheless, our findings suggest a lack of consistent quality in commissioned surveys across the government. We are particularly concerned about coverage and response rates and the potential for biased results when issues related to key indicators of survey quality have not been addressed. We are also concerned that 21 of 45 final survey reports did not provide any information on response rates. In our view, the government should also be concerned about these issues.

Leadership for the quality of public opinion surveys

Government-wide leadership for the quality of public opinion surveys is limited

2.35 **Departments are responsible for the quality of individual surveys.** Deputy ministers and agency heads are responsible for surveys commissioned by their departments and agencies. According to the *Communications Policy of the Government of Canada* (2002), departments "must ensure the quality and value of the research they commission or produce." However, if the government has an interest in commissioned surveys being of consistent quality across the government, there is an opportunity to contribute to survey quality before and after the contracting stage. This function should be carried out by a department with government-wide leadership for providing departments with expert advice and then reviewing final survey reports.

2.36 A department will require two kinds of expert survey advice: requirements for making the survey consistent with government-wide standards and with any benchmarks for quality, and particular quality requirements for each survey. These requirements could be reflected in the department's contract with the private sector research firm. Once a department has committed to the contract, it is responsible for ensuring that the quality requirements of the contract are satisfied in the final survey report. However, if the contract does not commit the firm to producing a good-quality survey for the department's intended use, then the department cannot be guaranteed that this quality will be produced.

Government-wide leadership for the quality of public opinion surveys has been important

2.37 Historically, the federal government has recognized the importance of having a lead department or agency contribute to consistent quality in all government surveys. In 1974, a Treasury Board directive approved the *Guidelines for Requests for Information from more than Ten Respondents*. While this directive was intended to reduce response burden by avoiding duplication of surveys, it also emphasized the importance of survey quality through designing and carrying out surveys that conform to statistical standards. Statistics Canada was responsible for systematically reviewing and advising all departments and agencies about their proposed surveys, and their planned methodology. It would then submit its report to the Treasury Board, which would decide whether the project would be funded.

2.38 Under this directive, Statistics Canada found few instances of duplication and received surveys too late to have an impact on their quality. So, during a period of budgetary restraint in the 1980s, Statistics Canada's role in giving advice on contracted public opinion surveys was significantly reduced. However, the Agency currently offers a variety of survey services, ranging from advice on survey design to the collection of data and statistical analysis. This work is done on a cost recovery basis, typically for other federal departments and agencies. Statistics Canada told us that it applies its quality standards to all its work, including cost recovery work.

2.39 Other countries have maintained government-wide leadership on survey quality. For example, since the 1940s, the U.S. Office of Management and Budget (OMB) has been responsible for reducing the burden on citizens and businesses providing information to the government. It reviews survey proposals, methodology plans, response burdens, and the various techniques used. All surveys of more than 10 individuals conducted by the federal government, internally or externally, have to be reviewed and comply with OMB standards before departments are permitted to carry out their surveys.

2.40 Over the past couple of decades, the leadership for federally commissioned surveys in Canada has moved between various departments. We looked at Treasury Board policies that evolved to give the Public Opinion Research Directorate a government-wide leadership role in contributing to the quality of commissioned surveys and how the Directorate interpreted and implemented these policies.

The Treasury Board has defined a government-wide leadership role for the quality of public opinion surveys

2.41 We found that the Treasury Board's *Common Services Policy* (2002) identifies common service organizations (CSO)s that, among other things, will contribute to more efficient government and "seek benefits from the pooling of specialized expertise." The policy goes on to say, "Certain services provided by CSOs are designated as mandatory....when a government-wide interest or consideration prevails over, or coincides with, the interests of individual departments and agencies." The interest or consideration can include providing access to "centres of expertise and specialization" and responding to the need for "a high level of consistency." For particular services, all applicable departments must use the services of the mandatory CSO. The Public Opinion Research Directorate, currently in PWGSC, is such a mandatory service.

2.42 According to Treasury Board Secretariat officials, the *Communications Policy of the Government of Canada* and its procedures, together with the *Common Services Policy* provide the rationale for why the Directorate is a mandatory common service organization. The Communications Policy defines PORD as the "technical and co-ordinating authority for Government of Canada public opinion research." Further, the related Communications Policy procedures state that PORD "will assist institutions by reviewing their research methodologies and clarifying the research objectives; advising on the preparation of statements of work…." and "advise institutions on….generally accepted standards of the market research industry." All departments planning to commission surveys from private research firms must first provide a project description for the proposed survey to the Directorate before contacting the firm. Analysis of the survey proposal provided by the commissioning department gives PORD staff the opportunity to offer required advice on the methodology and related quality requirements of the survey.

2.43 The *Common Services Policy* and the Communications Policy make clear that the final responsibility for the quality of the survey lies with the commissioning department and that PORD's role is one of providing advice. However, in our view, the policies also make clear that PORD is required to provide advice on issues relating to quality. It thereby acquires a government-wide leadership role through meeting its responsibility to offer persuasive and consistent high-quality advice to the commissioning departments.

The Public Opinion Research Directorate has interpreted its role in a limited way

2.44 We expected that PORD would provide and document advice to departments at key stages of the planning, contracting, and reporting process, which would contribute to consistently high-quality commissioned surveys across the government.

2.45 We found that the Directorate's annual report for the relevant period largely confirmed its government-wide leadership role, as defined in the Treasury Board policies. The *Public Opinion Research in the Government of Canada Annual Report 2003–04* states that PORD's mandate is "to provide a public opinion research centre of expertise" and that its research expertise helps government organizations "develop relevant and reliable research to make informed decisions." This report also says that PORD's assistance to departments and agencies helps to "enhance the quality of the research they undertake" and is "uniquely tailored to each assignment."

2.46 By contrast, PORD officials told us that they view the policy framework as defining a more limited role than defined by the policy framework for a department with the government-wide lead for survey quality. First, they informed us that, because individual departments are responsible for the quality of their surveys, the Directorate "has no accountability for ensuring survey quality, and consequently does not formally assess quality." Second, they told us that PORD staff provide advice "as required by the accountable institution" and that their "advice is provided on a case-by-case basis where there are concerns." In our view, PORD is required to review and provide advice on all submissions that it receives, if only to indicate that, based on its analysis, no substantive advice is needed. We found little evidence that PORD systematically reviewed methodologies of departments' proposals. Without a systematic review of methodology, it would be difficult for PORD to know whether advice was warranted.

2.47 PORD staff also informed us that they follow the Treasury Board Communications Policy requirement to play a co-ordinating function by linking departments to contractors, providing support services to departments such as facilitating interdepartmental committees, and providing workshops and research guides.

2.48 However, PORD did not place sufficient emphasis on providing expert advice to departments about the quality of individual surveys to justify the Directorate's role as a mandatory common service organization, as understood from the relevant policies. Therefore, we concluded that the Directorate does not appropriately interpret the applicable government policies regarding its mandatory role, as a common service organization, to advise departments on survey quality.

2.49 **Recommendation.** Public Works and Government Services Canada should ensure that the Public Opinion Research Directorate, as a mandatory common service organization, place sufficient emphasis on providing expert advice to departments and agencies on the quality of all surveys.

Department's response. While departments are accountable under the policy framework for ensuring survey quality, the Public Opinion Research Directorate (PORD) recognizes the importance of this recommendation and will continue to provide expert advice to departments on survey quality. In May 2004, new contracting tools for national public opinion research were implemented, which included more stringent contractual requirements for the industry to improve research quality. Further quality elements will be added to contracting tools for public opinion research, to be renewed by 2007 and communicated to departments. PORD will also update its existing research guides to better inform departments of survey quality matters.

As a further measure, the Directorate will implement a method for systematizing and documenting expert advice given to departments and will continue its practice of double-reviewing project files prior to sending projects for contracting.

The government-wide leadership role for the quality of public opinion surveys is not adequately fulfilled

2.50 We expected that a department with a government-wide leadership role for contributing to consistently high-quality surveys commissioned by departments would have clear responsibilities for

- setting government-wide benchmarks and adapting appropriate standards for the quality of federally commissioned surveys and for the content of final survey reports;
- providing documented expert advice to departments when reviewing the survey methodology and objectives. This advice would be based on applying government-wide standards and benchmarks on a case-by-case basis to each commissioned survey, with the objective of this advice being reflected in the individual contracts between departments and firms; and
- reviewing the final survey reports to determine whether they meet the specific quality requirements included in the advice given earlier, before the final survey report is sent to the Library of Parliament and Library and Archives Canada.

2.51 **Appropriate benchmarks for survey quality do not exist.** The Treasury Board Communications Policy procedures (2002) outline the responsibilities of the Public Opinion Research Directorate for advising departments on "generally accepted standards of the market research industry." However, as discussed earlier, these standards do not provide specific benchmarks, at least for the two key indicators of survey quality we examined. We expected that the Directorate would have established appropriate benchmarks for government to use as the basis for its advice to departments on how to distinguish between good-quality and poor-quality surveys. Advice of this kind would also contribute to the achievement of consistently high-quality surveys across the government.

2.52 PORD officials told us that they did not have the authority to develop standards for survey quality and are limited to using market research standards. However, the Communications Policy procedures indicate that one of the government's objectives is to ensure that survey research "meets or exceeds recognized standards of the market research industry" and, as noted, assigns responsibilities to the Directorate for advising departments on these industry standards. In our view, this statement requires PORD to identify the relevant market research standards for application to surveys commissioned by departments. It would also permit PORD to adapt other standards to fill gaps in the market research standards, or to develop its own benchmarks, where desirable, to fit the needs of government survey work.

2.53 **Recommendation.** To assist departments in distinguishing between good-quality and poor-quality surveys, the Public Opinion Research Directorate should adapt the relevant standards of the market research industry and develop suitable benchmarks applicable to surveys commissioned by departments.

Department's response. The Public Opinion Research Directorate (PORD) recognizes the importance of this recommendation and will establish an expert technical advisory panel, which will include participation from Statistics Canada. The panel will assist in the development of suitable benchmarks for inclusion in the contracting tools that will be developed and made available to departments for the procurement of public opinion research. PORD will also continue to apply and adapt the relevant standards of the marketing research industry when reviewing projects and providing advice.

The Public Opinion Research Directorate's advice on survey quality is informal

2.54 In our view, advice given to departments that would contribute to the consistent quality of their commissioned surveys should include three key areas.

2.55 First, the advice should clarify the survey's research objectives and include a review of the research methodology, according to the Communications Policy procedures.

2.56 Second, the advice should be made on the basis of industry standards and benchmarks that are appropriate for government use. We believe that this advice is most effective when it is provided for each survey on a case-by-case basis and is reflected in the contract between the department and the survey research firm. Therefore, we expected that the Directorate would give advice to departments, based on a suitable application of appropriate standards with accompanying benchmarks for survey quality, or, at a minimum, that the Directorate would advise departments about these industry standards, in accordance with requirements of the Communications Policy procedures.

2.57 Third, this advice should be documented, so that the department with the leadership role to provide the advice can demonstrate how effective it has been in reviewing and providing advice on proposed surveys, thereby contributing to consistently high-quality survey research across the government. The Treasury Board *Policy on the Management of Government Information* states that "federal government institutions should create, use, and preserve information to fulfill their mandates, support program and service delivery, achieve strategic priorities, and meet accountability obligations prescribed by law." Therefore, we expected that any advice given by PORD to departments on their proposed surveys would be documented.

2.58 **Most of PORD's advice is not documented.** PORD officials said that they spend 40 percent of their time providing advice to departments at various stages during the planning, contracting, and reporting process. We reviewed the 49 survey files for written evidence of advice on methodology and issues that could have an impact on survey quality and found such advice in less than half of the files. Directorate staff told us that most of their advice and discussion of standards was given informally, mainly by telephone, and was not documented. Of the staff we interviewed from the Directorate's client departments and agencies, most told us that PORD did not give them advice on designing, conducting, and reporting surveys.

2.59 **Little evidence that advice on research methodology or standards was given systematically.** The Communications Policy procedures require the Public Opinion Research Directorate to review research methodologies and advise on generally accepted standards. We expected to find a checklist or other documentation indicating that research methodologies were systematically reviewed and that advice from PORD staff referred to standards or benchmarks. We did not find such a checklist or documentation. Only 5 of the 49 files had any documented reference to the market research standards used to judge a department's statement of work or a research firm's proposal. Thus, PORD's advice on research methodology was neither systematic nor adequately documented.

2.60 **Quick review of survey proposals is a concern.** PORD staff emphasized that they provide advice in a timely way because the *Common Services Policy* states that "common service organizations will offer services to client departments in a manner that is most supportive of timely, effective, and economical delivery of programs to the public." We found that, in two thirds of the randomly sampled surveys and over one third of the high-value surveys, the Directorate processed the request in less than one day. Although the Directorate may have given informal advice before the official process had begun, the short period available for a formal review of the survey proposals allowed only a small opportunity to provide sound advice to departments. Statistics Canada officials performed a similar role in the 1970s and 1980s, and they told us that a week was not sufficient to provide comprehensive advice on the quality of a proposed survey. In our view, as a mandatory common service organization, PORD should carefully consider the benefits and risks when trading-off timeliness against providing sound advice.

2.61 PORD's other roles do not contribute sufficiently to survey quality. PORD staff told us that they contribute to survey quality when they help the contracting unit of PWGSC determine if a research firm can produce quality surveys. However, this only establishes that a firm is capable of meeting or exceeding general standards of survey quality in a future survey project. PORD staff also told us that a firm's formal offer to provide its services to a department at some later date includes a requirement to meet or exceed market research standards. However, such a promise could not realistically lay out the future conditions of quality for any specific survey conducted for a department; nor could it anticipate the particular quality requirements of a future survey, based on its intended use. By contrast, Statistics Canada ensures that its surveys are of high quality by applying its standards to all of its own surveys on a case-by-case basis, depending on the intended use. In our view, while PORD's other roles may contribute somewhat to the overall quality of commissioned surveys, they are insufficient to ensure that the quality requirements for specific surveys are met consistently across the government.

2.62 Recommendation. When the Public Opinion Research Directorate advises departments and agencies about surveys, Public Works and Government Services Canada should ensure that

- the advice is based on the systematic application of relevant standards and benchmarks to each survey on a case-by-case basis;
- all advice is documented; and
- departments and agencies are encouraged to reflect this advice in the contract so that concrete expectations of quality will be established.

Department's response. The Public Opinion Research Directorate (PORD) accepts this recommendation. The Directorate will develop a framework and working tools to aid advisory staff in systematically applying standards and benchmarks to the formulation of advice on a case-by-case basis. New practices will be put in place to better document advice given to departments. PORD will continue to provide advice to departments to be incorporated in the contract so that concrete expectations of quality will be established. In addition, further quality elements will be added to our next contracting tools for public opinion research, to be renewed by 2007 to assist departments in obtaining quality elements in the contracting process.

Complete information on public opinion surveys is not available in final reports

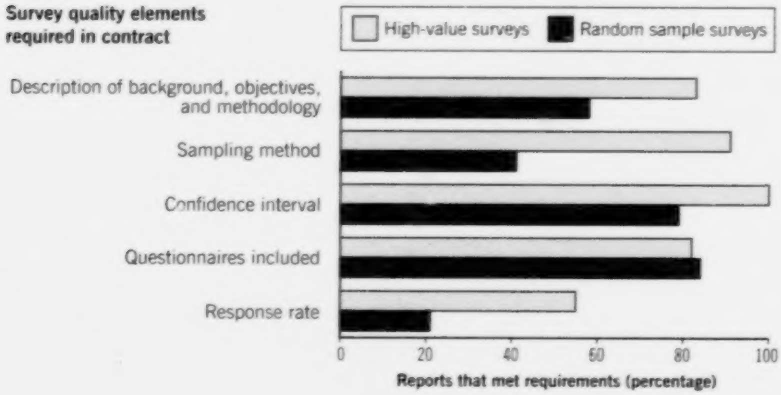
2.63 Contracts for surveys typically require some form of a final survey report to be provided by the research firm to the department that commissioned the survey. A survey report normally describes the methodology and the results of the survey. This information is important for readers to properly interpret the survey results. The Communications Policy procedures only require that these final reports be sent to PORD and that the Directorate then deposit them with the Library of Parliament and Library and Archives Canada. The procedures do not require PORD to review the reports.

2.64 However, we note that the *Policy on the Management of Government Information* requires that all departments "collect, create, receive, and capture information in ways that ensure its relevance, reliability, and completeness." In our view, this policy requirement would permit PORD to review the final reports and provide it with an opportunity to add value to survey and archival quality by assessing the reports to ensure that critical information is supplied. Such a procedure would allow the Directorate to close the loop by assessing the extent to which the advice its officials initially provided to a department is reflected in the completeness of the final research report and in the quality of the survey. PORD's assessments could be used to refine and improve its advisory services for subsequent research activities.

2.65 In the 49 survey files we examined (16 high-value and 33 randomly sampled reports), we found that most of the contracts drawn up by PWGSC's contracting unit contained a common set of elements that required the final reports to describe the quality of the surveys. PORD officials told us that, because departments could change these elements, not all contracts would have this common set of elements. Of the 45 survey files that contained final survey reports, 10 of the 13 high-value reports and 30 of the 32 randomly sampled reports were required to include this common set of elements describing survey quality. However, we found that none of these 40 final survey reports included all the common elements required by the contract.

2.66 We also examined whether the 45 final reports contained five key quality elements we selected from this common set. We found that only 9 of the reports provided all five of the key quality elements identified in Exhibit 2.2.

Exhibit 2.2 Compliance with contractual requirements for disclosure of survey quality elements



2.67 Overall, we found that while PORD received the final reports of commissioned surveys, Directorate staff did not review them for completeness and reliability before sending them to the Library of Parliament and Library and Archives Canada. This is consistent with the current Treasury Board Secretariat policy framework for PORD.

2.68 **Recommendation.** Public Works and Government Services Canada should ensure that the Public Opinion Research Directorate review the final survey reports for completeness and reliability.

Department's response. The Public Opinion Research Directorate (PORD) recognizes the importance of final survey reports being complete and reliable. Prior to submitting final reports to the Library of Parliament and Library and Archives Canada, the Directorate will continue to review final reports for completeness and advise departments of required elements under Government of Canada policies. In keeping with institutional accountability for the quality of research under the *Communications Policy of the Government of Canada* and the management of expenditures under the *Financial Administration Act*, PORD will continue to advise and encourage departments to include necessary elements for describing quality and take recommended steps in any instance where standards and benchmarks have not been met. Further quality elements to promote completeness and reliability will be added to the next contracting tools for public opinion research, to be renewed by 2007.

Conclusion

2.69 The growth in the number of federal government surveys underscores the importance of assuring their quality and how they are reported publicly. Canadians should be confident that the information they provide in their responses to surveys will be used by the government to manage programs better and to report on program performance to Parliament.

2.70 Clear guidance has yet to be provided to departments and agencies on reporting the quality of surveys in their departmental performance reports. Consequently, the public and parliamentarians were not adequately informed about the quality of the surveys reported to them. There is a risk that they were misled by poor-quality survey results about government programs.

2.71 Based on our examination of two of the more important indicators of survey quality, we are concerned about the quality of those public opinion surveys commissioned by departments and agencies that we looked at. We are particularly concerned that any potential biases in surveys were not adequately addressed and that survey results could have been misleading. We are also concerned that most of the final survey reports were incomplete.

2.72 Because the organization with government-wide leadership for survey quality—the Public Opinion Research Directorate—did not adapt industry standards for government use or develop benchmarks, it missed an opportunity to provide advice to departments and agencies that would contribute to the consistent high quality of their commissioned surveys. While each department and agency is responsible for the quality of its own surveys, the department with the mandate for a government-wide leadership role contributing to consistently high-quality surveys did not adequately fulfill that role.

About the Audit

Objectives

The objectives of this audit were

- to determine whether departments and agencies provide sufficient information in their departmental performance reports about the quality of the data produced by surveys to demonstrate that they are fit for use in reporting performance to Parliament,
- to describe some key elements of the quality of surveys that are conducted for federal departments and agencies by private research suppliers and processed through the Public Opinion Research Directorate (PORD), and
- to assess whether the federal government is exercising leadership in ensuring the quality of surveys conducted by departments and agencies.

Scope

Our audit examined the sufficiency of the reporting of surveys, from a variety of sources, in departmental performance reports. We also examined the quality and reporting of contracted surveys conducted by private sector firms for federal departments and agencies that were processed through the Public Opinion Research Directorate. Finally, we examined leadership on survey quality.

The scope of the part of our audit that focussed on public opinion surveys commissioned by the federal government excluded the following:

- Statistics Canada's A-based surveys—its cost recovery work in the Special Surveys Division and the Statistical Consultation Group was examined as a general benchmark to provide a basis for comparison with other federal surveys;
- information on how the surveys were used by departments and agencies;
- surveys conducted by agencies under Section III of the *Financial Administration Act*, as they are not subject to review by PORD;
- surveys conducted solely for internal use or conducted in-house by departments and agencies, and surveys contracted by Consulting and Audit Canada;
- qualitative public opinion research, due to the narrower scope and use of these data, and the distinct nature of applicable quality standards; and
- the management of files, the evaluation of firms for contracting purposes, and the co-ordination of contracts.

Approach

Selection of samples. Using a PORD database that recorded all public opinion research conducted during 2003–04 (593 cases), we identified all projects that involved some form of quantitative research (388). This included projects that have a combined quantitative and qualitative element as well as syndicated studies. One file had a negative budget amount and was excluded from the sampling process. As expected, the distribution was positively skewed, with a minority of surveys having very high values. Using Tukey's Outlier Filter, we defined high-value surveys as having a budget of $136,000 or more. We identified16 surveys as high-value.

The remaining surveys (372) were divided into two levels for non-proportional sampling—surveys of less than $50,000 (263) and greater than $50,000 (108). Estimates for this sample were appropriately weighted.

A total of 57 surveys were sampled. Eight were excluded from the audit because they fell outside the target population. Some of these files were incomplete because they involved the purchase of data from a syndicated survey (see following table).

Budget category	Population	Original sample	Used for assessing final reports	Used for reviewing contracts
$0 to 50,000	263	11	7	7
$50,000 to 136,000	108	30	25	26
$136,000 and over	16	16	13	16
Total	**387**	**57**	**45**	**49**

Results were reported for the high-value items using a census of available surveys, and for the remainder of the population using the non-proportional stratified sample. The results are accurate within plus or minus 12 percent, 18 times out of 20. Extreme findings (less than 10 percent or greater than 90 percent) are accurate within plus or minus 10 percent, 18 times out of 20.

For the 19 cases where the final report included at least a partial record of contact, we estimated the response rates of surveys based on information within the "record of contact" using the AAPOR Response Rate 3 (RR3) method of calculation. This method is less conservative than the method prescribed by the Professional Marketing Research Society—the AAPOR's method will produce higher response rates than the Society's method. In most cases, there was insufficient information in the record of contact to calculate a precise RR3. We estimated an eligibility rate based on the target population and Statistics Canada 2001 Census information. In the 5 cases where a report listed only a response rate, with no information on how it was calculated, the response rate was taken at face value. The remaining 21 cases contained no information on response rate.

Interviews. We conducted interviews with staff of 10 of the 17 departments and agencies that were part of our sample of contracted survey projects. In most cases, those interviewed were public opinion research co-ordinators in 2003–04. We selected the departments to represent various sizes and various amounts of research experience. Each department was asked standardized questions.

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Appendix List of recommendations

The following is a list of recommendations found in Chapter 2. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

[illegible]	[illegible]
Reporting the quality of surveys	
2.19 The Treasury Board Secretariat's annual *Preparation Guide—Departmental Performance Reports* should ask departments and agencies to ensure that • references to survey data are accompanied by a basic description of how the survey was conducted, along with key indicators of data quality and any data limitations; • this information is readily accessible through footnotes or endnotes; and • more detailed methodological information is publicly accessible, preferably through an Internet link to the final survey report. **(2.14–2.18)**	Through its guidelines on the preparation of departmental performance reports, the Treasury Board Secretariat encourages departments to explain in their reports why the reader can have confidence in the methodology and data used to substantiate performance. Among other things, good-quality public performance reports should be balanced, easy to understand, and unburdened by large amounts of technical detail. The Secretariat recognizes that reasonable documentation of survey methodology, presented in an unobtrusive manner, can enhance the quality of a public performance report. The Secretariat will address the reporting of survey methodology in upcoming versions of its guidelines and will continue to work with departments to improve the quality of reporting to Parliament.
Leadership for the quality of public opinion surveys	
2.49 Public Works and Government Services Canada should ensure that the Public Opinion Research Directorate, as a mandatory common service organization, place sufficient emphasis on providing expert advice to departments and agencies on the quality of all surveys. **(2.44–2.48)**	While departments are accountable under the policy framework for ensuring survey quality, the Public Opinion Research Directorate (PORD) recognizes the importance of this recommendation and will continue to provide expert advice to departments on survey quality. In May 2004, new contracting tools for national public opinion research were implemented, which included more stringent contractual requirements for the industry to improve research quality. Further quality elements will be added to contracting tools for public opinion research, to be renewed by 2007 and communicated to departments. PORD will also update its existing research guides to better inform departments of survey quality matters. As a further measure, the Directorate will implement a method for systematizing and documenting expert advice given to departments and will continue its practice of double-reviewing project files prior to sending projects for contracting.

Recommendation	Department's response
2.53 To assist departments in distinguishing between good-quality and poor-quality surveys, the Public Opinion Research Directorate should adapt the relevant standards of the market research industry and develop suitable benchmarks applicable to surveys commissioned by departments. **(2.50–2.52)**	The Public Opinion Research Directorate (PORD) recognizes the importance of this recommendation and will establish an expert technical advisory panel, which will include participation from Statistics Canada. The panel will assist in the development of suitable benchmarks for inclusion in the contracting tools that will be developed and made available to departments for the procurement of public opinion research. PORD will also continue to apply and adapt the relevant standards of the marketing research industry when reviewing projects and providing advice.
2.62 When the Public Opinion Research Directorate advises departments and agencies about surveys, Public Works and Government Services Canada should ensure that • the advice is based on the systematic application of relevant standards and benchmarks to each survey on a case-by-case basis; • all advice is documented; and • departments and agencies are encouraged to reflect this advice in the contract so that concrete expectations of quality will be established. **(2.54–2.61)**	The Public Opinion Research Directorate (PORD) accepts this recommendation. The Directorate will develop a framework and working tools to aid advisory staff in systematically applying standards and benchmarks to the formulation of advice on a case-by-case basis. New practices will be put in place to better document advice given to departments. PORD will continue to provide advice to departments to be incorporated in the contract so that concrete expectations of quality will be established. In addition, further quality elements will be added to our next contracting tools for public opinion research, to be renewed by 2007 to assist departments in obtaining quality elements in the contracting process.
2.68 Public Works and Government Services Canada should ensure that the Public Opinion Research Directorate review the final survey reports for completeness and reliability. **(2.63–2.67)**	The Public Opinion Research Directorate (PORD) recognizes the importance of final survey reports being complete and reliable. Prior to submitting final reports to the Library of Parliament and Library and Archives Canada, the Directorate will continue to review final reports for completeness and advise departments of required elements under Government of Canada policies. In keeping with institutional accountability for the quality of research under the *Communications Policy of the Government of Canada* and the management of expenditures under the *Financial Administration Act*, PORD will continue to advise and encourage departments to include necessary elements for describing quality and take recommended steps in any instance where standards and benchmarks have not been met. Further quality elements to promote completeness and reliability will be added to the next contracting tools for public opinion research, to be renewed by 2007.

Report of the Auditor General of Canada to the House of Commons—November 2005

Main Table of Contents

Matters of Special Importance—2005
Main Points—Chapters 1 to 8

Chapter 1 Royal Canadian Mounted Police—Contract Policing

Chapter 2 The Quality and Reporting of Surveys

Chapter 3 Canada Revenue Agency—Verifying Income Tax Returns of Individuals and Trusts

Chapter 4 Managing Horizontal Initiatives

Chapter 5 Support to Cultural Industries

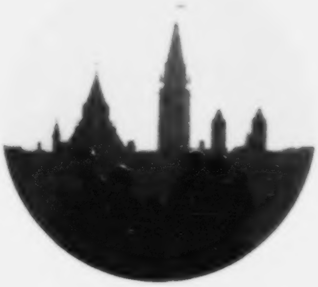
Chapter 6 Elections Canada—Administering the Federal Electoral Process

Chapter 7 Indian and Northern Affairs Canada—Meeting Treaty Land Entitlement Obligations

Chapter 8 Other Audit Observations

Appendices

2005



Report of the
Auditor General of Canada
to the House of Commons

NOVEMBER

Chapter 3
Canada Revenue Agency—
Verifying Income Tax Returns
of Individuals and Trusts

Office of the Auditor General of Canada

The November 2005 Report of the Auditor General of Canada comprises Matters of Special Importance—2005, Main Points—Chapters 1 to 8, eight chapters, and appendices. The main table of contents is found at the end of this publication.

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Chapter

3

Canada Revenue Agency

Verifying Income Tax Returns of Individuals and Trusts

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Table of Contents

Main Points 1

Introduction 3

Focus of the audit 3

Observations and Recommendations 4

Verifying personal income tax returns 4

Verifying deductions and credits 6

The Agency has a well-designed and well-executed approach to selecting income tax returns for audit 6

Verifying income subject to third-party reporting 8

The matching program identifies potentially unreported income 8

A number of factors have made the matching program less effective 9

The Agency should make better use of certain information slips 12

Measuring and reporting compliance 13

Verifying income tax returns from domestic trusts 16

The Agency does not systematically evaluate the tax at risk in domestic trusts 16

A number of factors have made trust review activities less effective 17

Conclusion 20

About the Audit 22

Appendix

List of recommendations 24

Canada Revenue Agency

Verifying Income Tax Returns of Individuals and Trusts

Main Points

What we examined

The Canada Revenue Agency is responsible for administering the *Income Tax Act*. It strives to ensure that Canadians pay their required share of taxes and that the tax base is protected. We looked at how the Agency verifies the accuracy of income tax returns of domestic trusts and certain aspects of personal income tax returns. We examined how the Agency decides which tax returns it will verify; whether it has adequate verification procedures, including its use of information from third parties; and whether it compiles complete and accurate information on the results of its verification programs.

Why it's important

The Canadian tax system is based on self-assessment, with each individual and trust required to provide complete and accurate information to the government on the income taxes they owe.

The programs we looked at form the backbone of the Agency's verification of personal income tax returns. In 2003–04, these programs scrutinized about 24 million returns filed by taxpayers, and they verified aspects of returns that did not appear to comply with the law. Personal or individual income tax is the single most important source of government revenue; in 2003–04, the Agency assessed $125 billion in taxes payable by individuals to the federal, provincial (other than Quebec), and territorial governments. In the same year, domestic trusts were assessed $3 billion in federal, provincial, and territorial income taxes, and they allocated income of $23 billion to their beneficiaries.

What we found

- The Agency's processing review program has a well-designed and well-executed risk-based approach for selecting and verifying deductions and credits that individuals have claimed on their tax returns but may not be fully entitled to. It found that the percentage of such taxpayers doubled to 11 percent from 1997 to 2003 although according to our estimate, the total revenue at risk has remained relatively constant for the last four years. Using the Agency's data for 2002–03, we estimated that, had all taxpayers complied fully with the rules for claiming the 32 deductions and credits covered by the processing review program, revenues from personal income taxes that year would have been $586 million higher. The program recovered 27 percent of that amount, or $160 million, by verifying about three percent of the returns assessed that year.

- In its matching program, the Agency compares the information reported by taxpayers with information submitted by third parties such as employers and financial institutions. Where it finds one or more discrepancies, it calculates the amount of income tax that is potentially recoverable. While the matching program selects returns for review based on risk, its estimate of risk does not include the system's calculation of the amount potentially recoverable. As a result, the Agency does not consistently select and review the returns with the largest amounts of potentially unreported income. Nor does it estimate the tax at risk for returns where it has identified discrepancies but not verified them.
- In not monitoring the tax revenue impact of non-compliance in the areas verified by the processing review and matching programs, the Agency is not considering an important element in evaluating these programs' effectiveness.
- The Agency does not systematically evaluate the tax revenue at risk in domestic trusts when choosing the tax returns it verifies. In addition, the development of an effective risk evaluation system is hampered by the lack of key information such as the value of assets and liabilities held in trusts. The Agency emphasizes audits of testamentary trusts. In the last three years, average tax recoveries from audits of testamentary trusts have been about five times smaller than average recoveries from audits of other trusts.
- There are also deficiencies in the Agency's review activities for tax returns of domestic trusts. For example, the only measure of its performance in this area is whether a return was processed in the time allotted by the Agency's service standard; it lacks information on corrections made by its assessors; and it does not compare deductions claimed by trusts for allocations to beneficiaries against the amounts reported on the information slips the trusts provide to beneficiaries.

The Agency has responded. In its response to each recommendation, throughout the chapter, the Canada Revenue Agency has indicated the action it has taken or plans to take.

Introduction

Self-assessment—When a taxpayer completes an income tax return and determines the taxes owed based on his/her assessable income and allowable deductions and credits.

Non-compliance—When the taxpayer does not determine, report, or pay the correct amount of taxes owed.

3.1 The Canada Revenue Agency received about 24 million income tax returns from individuals in 2003–04. This represents the single most important source of government revenue, with taxes of $125 billion assessed that year. The Canadian tax system is based on **self-assessment**, with each individual required to file a tax return that reports complete and accurate information and to pay taxes he or she owes under the *Income Tax Act*. **Non-compliance** can result from deliberate acts of tax evasion as well as from non-deliberate honest mistakes in interpretation and mathematical miscalculations.

3.2 The Agency's verification programs for individual or personal income tax returns include three validation programs—confidence validity, processing review, and matching—and four desk audit programs—refund examination, post review, office audit, and office audit of taxpayer-requested adjustments. The three validation programs form the backbone of how the Agency verifies personal income tax returns. These three programs scrutinize every one of the returns filed by taxpayers every year and verify aspects of returns that do not appear to comply with the law.

3.3 The *Income Tax Act* also requires trusts to file tax returns. According to Agency data, in 2003–04 about 175,000 domestic trusts reported that they had allocated income of $23 billion to beneficiaries, and that they themselves were assessed $3 billion in federal, provincial, and territorial income taxes. The Agency's verification programs for domestic trusts include a compliance review when the return is initially processed and audits of selected returns.

Focus of the audit

3.4 The objective of our audit was to assess how well the Agency identifies and manages the risk that individuals and domestic trusts might fail to comply with the law when preparing their income tax returns, and how well it uses information from third parties in verifying personal income tax returns.

3.5 We looked at whether the Agency

- ranks tax returns for verification by level of risk,
- has adequate procedures for verifying all the information in a tax return,
- makes reasonable use of information slips that the law requires third parties to submit,

- accurately and completely captures results of its verification activities, and
- addresses known areas of non-compliance.

3.6 We did not look at the Agency's programs for verifying compliance with the rules that govern the reporting of income from self employment, as we had looked at them last year. Nor did we examine specialty audit programs, such as tax avoidance and international tax, or the Agency's compliance activities for non-resident or foreign trusts. Further details on our audit objective, scope, approach, and criteria are presented in **About the Audit** at the end of the Chapter.

Observations and Recommendations

Verifying personal income tax returns

3.7 To ensure that all its verification programs for personal income tax returns use their resources as effectively as possible, the Agency identifies areas where taxpayers are more likely to have difficulty completing their tax returns or to not comply with the law. It then identifies specific tax returns with higher potential for tax recovery. A number of automated risk assessment tools screen all returns (Exhibit 3.1), to determine the likelihood that a return contains incomplete or inaccurate information and to estimate the additional income taxes owed, if the suspected irregularities were confirmed and corrected.

3.8 Even before applying risk assessment criteria, the Agency subjects every tax return to an initial review to ensure that the return is consistent with information already on file, that calculations are correct, that certain deductions and credits claimed by the taxpayer do not exceed the maximum amounts allowable, and that the taxpayer is entitled to the amounts he or she has claimed.

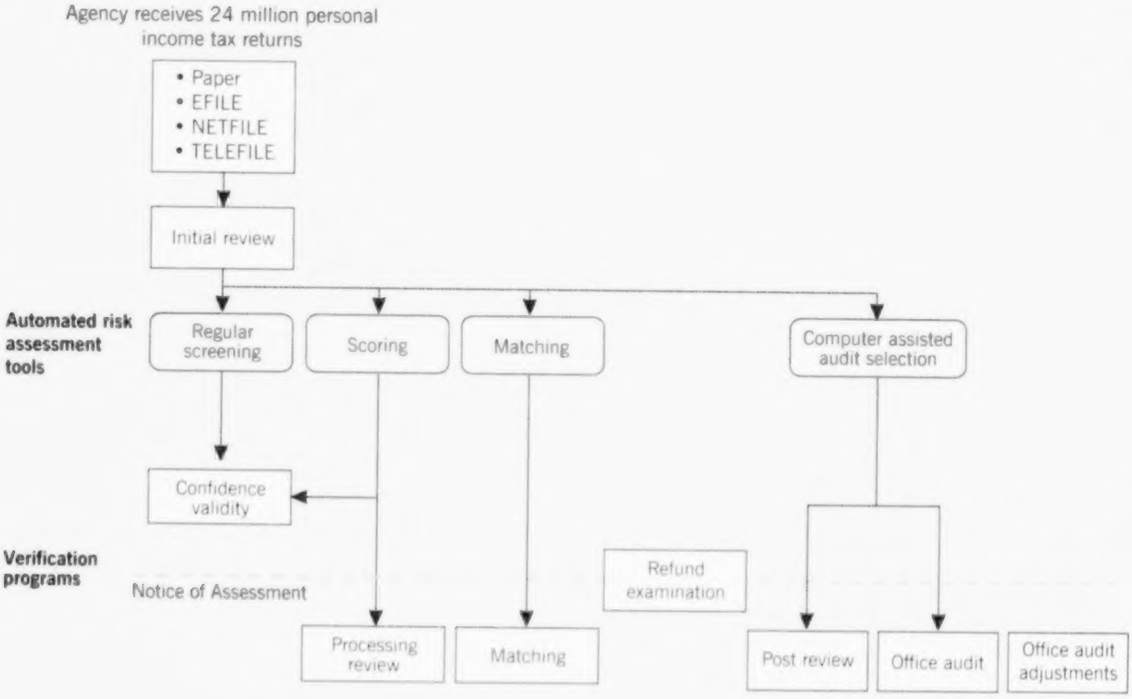
3.9 Then a scoring system assigns a score to each of 32 specific deductions and credits in a return. Based on those scores, the confidence validity program verifies selected returns. This program also verifies returns that the regular screening system has selected because they contain losses, deductions, or credits that exceed established amounts. In total, the confidence validity program selects about 1.5 percent of personal tax returns for review.

3.10 At this point, the Agency sends the taxpayer a notice of assessment that confirms or changes the taxpayer's calculation of taxes payable and any refund due.

3.11 Once the notice of assessment is sent, the processing review program selects about 2.7 percent of personal income tax returns for review. The program selects returns mainly by their assigned score but also selects some at random to test and develop the Agency's risk assessment criteria.

3.12 The Agency also matches certain information on the tax return to selected information provided by third parties—such as remuneration paid, as shown on the T4 slips provided by employers—and information from the tax returns of spouses and common-law partners. The matching system identifies all returns with discrepancies, and the matching program verifies a number of those returns.

Exhibit 3.1 CRA uses a number of risk assessment tools and programs to verify personal income tax returns


Agency receives 24 million personal income tax returns
• Paper
• EFILE
• NETFILE
• TELEFILE
Initial review
Automated risk assessment tools
Regular screening
Scoring
Matching
Computer assisted audit selection
Confidence validity
Verification programs
Notice of Assessment
Refund examination
Processing review
Matching
Post review
Office audit
Office audit adjustments

3.13 The refund examination, post review, and office audit programs also select returns for desk audit. Each of those programs has a defined target. For example, as part of their workload

- the refund examination program verifies the return if a taxpayer asks for a refund that exceeds a set amount,
- the post review program verifies claims for "other employment expenses," and
- the office audit program verifies taxable capital gains.

These three programs select returns for audit based on the estimated amount of tax revenue at risk.

3.14 When any of the Agency's verification programs for personal income tax returns select a return for review, examiners will normally verify only the claims or income items identified at risk, not all the amounts on the tax return. If the review results in changes to the return, the Agency sends the taxpayer a notice of reassessment.

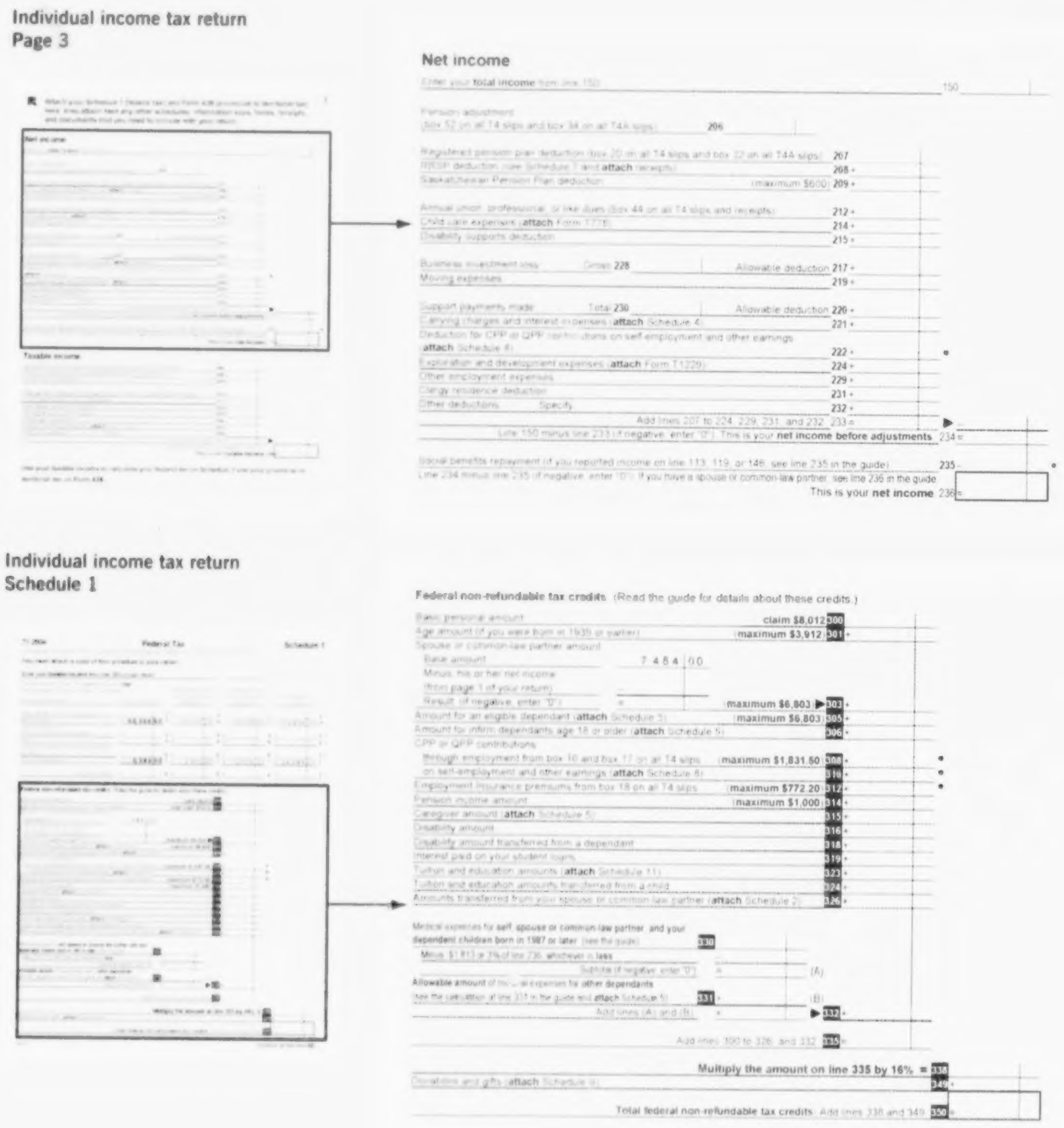
Verifying deductions and credits

The Agency has a well-designed and well-executed approach to selecting income tax returns for audit

3.15 The confidence validity program automatically selects returns for review according to predetermined criteria known as confidence validities. These are designed to evaluate the level of risk associated with specific items or claims on a tax return. "Regular" confidence validities are based on simple logic and on whether the amount of the claim exceeds predetermined thresholds. The regular validities apply to certain deductions, credits, and losses. "Scored" confidence validities are based on how the scoring system evaluates the level of risk associated with 32 different deductions and credits that can be claimed on a tax return and on whether the taxpayer is asking for a refund. A higher score indicates a higher risk of tax loss. Most deductions and credits that the system scores appear on page 3 and Schedule 1 of the personal income tax return (Exhibit 3.2).

3.16 The scoring system uses many criteria that subject matter experts develop. Through the interrelationship of these criteria, a score is assigned to specific deductions and credits in each return; a taxpayer's compliance history with the Agency also affects the score. Returns are sorted by categories with each of the 32 deductions and credits that the program verifies and each of the four ways or modes of filing (paper, EFILE, NETFILE, TELEFILE) representing a category. The processing review program then verifies a number of returns selected from each category; the returns with the highest scores are selected for verification. The staff resources available to do the verification and the estimated level of tax dollars at risk for each category, as compared to the other categories, determine the number of returns that are reviewed from each category.

Exhibit 3.2 The scoring system focusses mostly on deductions and credits on page 3 and Schedule 1 of the personal income tax return



Individual income tax return
Page 3

Net income
Enter your **total income** from line 150 150
Pension adjustment
(box 52 on all T4 slips and box 34 on all T4A slips) 206
Registered pension plan deduction (box 20 on all T4 slips and box 32 on all T4A slips) 207
RRSP deduction (see Schedule 7 and **attach** receipts) 208 +
Saskatchewan Pension Plan deduction (maximum $600) 209 +
Annual union, professional, or like dues (box 44 on all T4 slips and receipts) 212 +
Child care expenses (**attach** Form T778) 214 +
Disability supports deduction 215 +
Business investment loss Gross 228 Allowable deduction 217 +
Moving expenses 219 +
Support payments made Total 230 Allowable deduction 220 +
Carrying charges and interest expenses (**attach** Schedule 4) 221 +
Deduction for CPP or QPP contributions on self-employment and other earnings (**attach** Schedule 8) 222 + ●
Exploration and development expenses (**attach** Form T1229) 224 +
Other employment expenses 229 +
Clergy residence deduction 231 +
Other deductions Specify 232 +
Add lines 207 to 224, 229, 231, and 232. 233 = ▶ –
Line 150 minus line 233 (if negative, enter "0"). This is your **net income before adjustments** 234 =
Social benefits repayment (if you reported income on line 113, 119, or 146, see line 235 in the guide) 235 – ●
Line 234 minus line 235 (if negative, enter "0"). If you have a spouse or common-law partner, see line 236 in the guide.
This is your **net income** 236 =

Individual income tax return
Schedule 1

Federal non-refundable tax credits (Read the guide for details about these credits.)
Basic personal amount claim $8,012 300
Age amount (if you were born in 1939 or earlier) (maximum $3,912) 301 +
Spouse or common-law partner amount
Base amount 7 484 | 00
Minus: his or her net income (from page 1 of your return) –
Result (if negative, enter "0") = (maximum $6,803) ▶ 303 +
Amount for an eligible dependant (**attach** Schedule 5) (maximum $6,803) 305 +
Amount for infirm dependants age 18 or older (**attach** Schedule 5) 306 +
CPP or QPP contributions:
through employment from box 16 and box 17 on all T4 slips (maximum $1,831.50) 308 + ●
on self-employment and other earnings (**attach** Schedule 8) 310 + ●
Employment insurance premiums from box 18 on all T4 slips (maximum $772.20) 312 + ●
Pension income amount (maximum $1,000) 314 +
Caregiver amount (**attach** Schedule 5) 315 +
Disability amount 316 +
Disability amount transferred from a dependant 318 +
Interest paid on your student loans 319 +
Tuition and education amounts (**attach** Schedule 11) 323 +
Tuition and education amounts transferred from a child 324 +
Amounts transferred from your spouse or common-law partner (**attach** Schedule 2) 326 +
Medical expenses for **self, spouse or common-law partner, and your dependent children born in 1987 or later** (see the guide) 330
Minus: $1,813 or 3% of line 236, whichever is **less** –
Subtotal (if negative, enter "0") = (A)
Allowable amount of medical expenses for **other dependants** (see the calculation at line 331 in the guide and **attach** Schedule 5) 331 + (B)
Add lines (A) and (B). = ▶ 332 +
Add lines 300 to 326, and 332. 335 =
Multiply the amount on line 335 by 16% = 338
Donations and gifts (**attach** Schedule 9) 349 +
Total federal non-refundable tax credits: Add lines 338 and 349. 350 =

3.17 Each year, a statistical analysis of the results of the processing review program allows the Agency to determine how effective the scoring system has been at detecting non-compliance. Part of this analysis includes comparing the number of returns changed or "adjusted" in each category with the actual number reviewed, and the average amount of tax recovered for each review. Tax officials also validate the scoring system, by comparing the tax recovered in selecting claims according to their assigned score, with the tax recovered in selecting claims at random. For 2002–03—the last year we reviewed where the Agency had completed this analysis—the scoring system was effective. Selecting claims by their risk score recovered more revenue than selecting claims at random—on average, four times more per review—in all but two categories of deductions and credits.

3.18 **Some high-risk claims were not verified by the processing review program.** Although the confidence validity program reviews tax returns that meet its criteria throughout the year, the processing review program did not verify returns filed after a certain date. Program officials estimated that in 2003–04, about 26,000 tax returns that met the program's selection criteria for verification were received after the cut-off date and therefore were not verified. The Agency made system changes to correct this deficiency in time to verify the 2004 income tax returns.

Verifying income subject to third-party reporting

The matching program identifies potentially unreported income

3.19 In the fall of each year, the Agency matches information on tax returns with information that employers, financial institutions, and other third parties provide. In addition, the tax returns of individuals who are married or living common law are compared with their spouses' or partners' returns. This comparison is designed to identify

- unreported income;
- an incorrect claim for an amount of "income tax deducted;"
- credits and deductions that exceed the limits;
- net family income for the purpose of the Canada Child Tax Benefit, the Goods and Services Tax Credit or the Harmonized Sale Tax Credit, and the Guaranteed Income Supplement; and
- incorrect "pension adjustment" amounts.

3.20 When the matching system identifies a discrepancy, it calculates how much additional income tax would be owed if the discrepancy was corrected. All returns that could yield more than a predetermined amount in additional federal, provincial, or territorial income taxes or that could result in adjustments in the taxpayer's favour are candidates for review. These returns are grouped according to the source and nature of the discrepancy. Tax officials then verify a portion of these returns.

3.21 **The reasons for selecting the returns verified by the matching program were not fully documented.** The resources allocated to the matching program resulted in the review of 55 percent to 80 percent of the discrepancies identified by the system each year over the past five years. We were told that program officials use several criteria to decide which returns to review. The criteria include the source and nature of the discrepancy as well as how often changes were made when returns with similar discrepancies were reviewed in previous years and how much additional tax was recovered, on average, when a change was made. However, officials were not able to provide the full details to show why the matching program selected the returns it verified in 2004–05. In the absence of supporting documents, we were not able to determine whether the Agency followed its own criteria in selecting returns for verification that year.

A number of factors have made the matching program less effective

3.22 The matching program does not consistently select the riskier returns for verification. The categories that the Agency uses to select the returns that the matching program will verify are based on criteria that indicate the risk of non-compliance. However, these criteria do not include the amount that the system has already calculated as potential taxes that can be recovered on a return. As a result, some returns it verified had less tax potential than other returns it did not verify.

Expected tax recovery—The amount that the system has calculated as the potential tax that can be recovered for a return multiplied by the probability that that amount will be recovered.

3.23 The Agency has enough information to calculate the **expected tax recovery** of most returns that contain discrepancies. The Agency could select returns for review, starting from those with the highest expected tax recovery. This could be done, no matter how else the returns have been categorized. Once selected according to the highest expected tax recovery, the returns could be then re-sorted by category to facilitate the workflow in the taxation centres. Returns in specific categories could still be selected and verified for purposes other than maximizing dollar recoveries—for example, to educate taxpayers on reporting a particular type of income or to gain information on how taxpayers report different types of income.

3.24 The matching program currently does not incorporate other readily available information that could be useful in assessing the risk that a taxpayer has incorrectly reported income. For example, information about the taxpayer's past compliance history and about whether the return has been selected for review by the confidence validity or processing review program is not included in the matching program criteria.

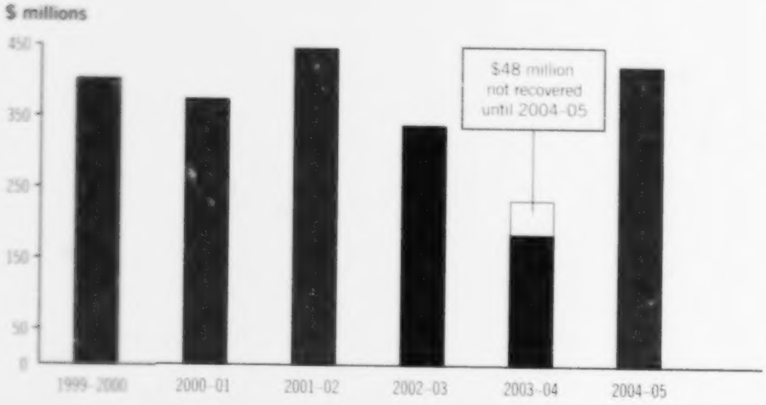
3.25 **Matching T3 information slips has been a challenge.** The law requires that an income tax return include income the taxpayer received from trusts. Trusts are generally required to report the income they allocate to beneficiaries on T3 information slips.

3.26 In reviewing program information and interviewing program officials, we found that the matching of T3 slips to returns has produced poor recovery of taxes owed because of difficulties with identifying and confirming discrepancies. For example, on the T3 slips provided to the Agency, financial institutions report each separate amount distributed to a beneficiary from each of the beneficiary's trusts. However, on information slips provided to each beneficiary, the institutions report one amount representing the combined payments from all the trusts.

3.27 The Agency's regular workload does not include verifying discrepancies between T3 slips and income tax returns and assessing the comparative risks of tax loss, if a taxpayer fails to report trust income or income from other sources. These verification activities are only conducted when the Agency specifically allocates funds for that purpose.

3.28 **The matching program recovered lower revenues in a recent two-year period.** Revenues recovered through the matching program declined significantly in 2002–03 and 2003–04 (Exhibit 3.3). In their 2002–03 report, program officials identified a number of factors contributing to reduced recoveries, including the need to train more staff and systemic problems in identifying certain kinds of discrepancies. For 2003–04, difficulty introducing a new computer system accounted for the lower recoveries. We estimate that in the two-year period, the matching program did not recover about $200 to $250 million in income taxes that it would have recovered without those difficulties. Agency officials advised us that, in 2005–06, the Agency plans to perform a second review of returns received in 2003–04 and verify a significant portion of returns not previously verified.

Exhibit 3.3 Revenue recovered by the matching program declined in 2002–03 and 2003–04



3.29 Excess RRSP contributions have not been detected. The accumulated amount of unused RRSP contributions that exceed a taxpayer's deduction limit by more than $2,000 is subject to a tax of one percent per month (under Part X.1 of the *Income Tax Act)*. Reasons for excess contributions include

- a lack of understanding of the rules,
- failure to keep track of total contributions made in the year, and
- a desire to shelter investment income for a number of years.

3.30 To date, the Agency has not taken steps to identify taxpayers who have made excess contributions but have not reported the amount of tax owed under Part X.1 of the *Income Tax Act*. Beginning with tax returns for 2004, the Agency plans to start comparing RRSP contributions reported by financial institutions with amounts reported by individuals on their tax returns. This will allow the Agency to verify whether taxpayers made the RRSP contributions for which they are claiming a deduction and to detect excess contributions. The Agency is studying the current extent of excess contributions to determine how to improve compliance in this area. These actions will address the concerns we expressed in our 1994 and 1997 reports about the lack of a verification program for RRSP contributions.

3.31 Recommendation. To improve the results of the matching program, the Agency should

- fully document and support the basis for selecting returns to verify; and
- verify returns in decreasing order of expected income tax recovery, in its work aimed at tax recovery.

Agency's response. The Agency agrees to fully document and support the basis for selecting returns to verify.

With respect to verifying returns in decreasing order of expected income tax recovery, the Agency agrees that case prioritization is important. However, it is not the only criterion that needs to be taken into consideration to produce better results for this business line.

The Agency will study how to improve its matching process to ensure that resources are expended on the best cases and is in the process of analyzing several alternatives to improve its current practices.

The Agency should make better use of certain information slips

3.32 Partnerships, issuers of flow-through shares, and promoters of tax shelters give the Agency information annually, detailing the amounts of income, losses, and credits attributed to their investors. The Agency uses information slips submitted by issuers of flow-through shares and promoters of tax shelters to evaluate the tax risk posed by particular issuers and promoters and to decide who should be audited. The Agency also uses this information during the audit to verify compliance with tax rules. The Agency uses information slips submitted by partnerships in a limited way, but not to evaluate tax at risk. However, the Agency does not use the information slips that all these independent sources issue when it looks at personal income tax returns to determine if claims for related losses and credits are valid or if all the related income is reported.

3.33 Tax legislation requires brokerage firms to report to the Agency on the proceeds paid or credited to clients from securities that they have disposed of or redeemed during the year. Though the Agency captures this information, it does not systematically verify whether taxpayers have included the proceeds from these transactions in the income or losses reported on their income tax returns. Auditors do use the information to screen files for possible audit, and the information is essential when the Agency audits a taxpayer. When tax officials analyze the information from brokerage firms, this can also result in special audits of taxpayers.

3.34 **Recommendation.** The Agency should develop and implement a strategy to make better use of information returns on tax shelters, partnership income, and flow-through shares in its compliance activities for personal income tax returns.

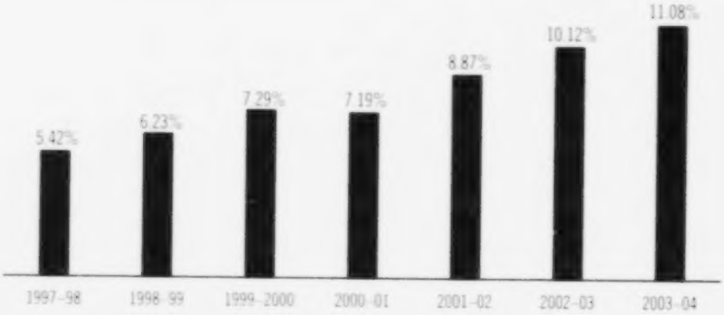
Agency's response. The Agency recognizes the importance of effectively utilizing information returns in its compliance activities. While the information received on tax shelter returns, flow-through share returns, and partnership returns is not designed to be automatically matched to taxpayers' files, the Agency does, as the Auditor General notes, use the information on tax shelter returns and on flow-through share returns to evaluate tax risk for audit purposes, and to verify compliance with tax laws. Concerning partnership returns, the Agency instituted a pilot project in April 2005 to assess the benefit of capturing partnership information into an audit database to improve risk ranking for audit purposes. The Agency will use the results of the pilot project to determine how best to utilize information returns in its compliance activities.

Measuring and reporting compliance

3.35 In its 2003–04 annual report to Parliament, the Agency states that it conducts random verifications in the processing review program. It goes on to say, "Based on the 2002 tax year, overall compliance for these items (key credits and deductions) remained high at 89.9 percent, a result which is comparable to last year."

3.36 However, when this information is compared with results over a longer period, as the Agency does in its internal program evaluation reports, and in its 2004–05 annual report, a different view of taxpayer compliance emerges. In verifying randomly selected returns, the processing review program found that the percentage of taxpayers claiming deductions and credits that they were not entitled to doubled from 5.42 to 11.08 percent between 1997 and 2003 (Exhibit 3.4). However, for the last four years, our estimate of the total revenue at risk has remained relatively constant. Through further analysis, program officials have determined that compliance rates appear to vary with the mode of filing.

Exhibit 3.4 The processing review program found the percentage of taxpayers claiming deductions and credits that they were not entitled to doubled



3.37 **The Agency needs to understand and address deteriorating taxpayer compliance in its processing review program.** We were pleased to see that for deductions and credits covered by the processing review program, the Agency annually measures the percentage of taxpayers who did not comply with the rules. Where it has identified claims with a higher incidence of non-compliance, it has taken measures that include proposing changes to tax guides and other publications, updating guidance on the Agency's Internet site, and recommending changes in tax-filing software used by NETFILERS. In addition to this yearly analysis of program results, the Agency's compliance research program conducted a number of studies to learn more about the increasing rate of non-compliance in the general population and differences in the level of non-compliance among taxpayers, who use different filing methods, such as EFILE or NETFILE.

3.38 However, the Agency has yet to fully understand the reasons for the increase in non-compliance in items covered by the processing review program over the last seven years—whether the increase is attributable to specific deductions and credits, differences in taxpayer characteristics (for example, age, income range, province)—or is a general increase in non-compliance among taxpayers. While we recognize that the underlying causes of non-compliance in the processing review program cannot be easily "modelled" and explained, the Agency needs to answer these questions in order to address them with appropriate measures.

3.39 **Measuring the dollar impact of non-compliance with rules for claiming deductions and credits.** The Agency measures the percentage of taxpayers who are non-compliant in claiming deductions and credits that the processing review program verifies. Non-compliance can result from deliberate acts of tax evasion as well as from non-deliberate acts caused by honest mistakes in interpretation or mathematical errors.

3.40 However, the Agency does not measure the difference between actual federal, provincial, and territorial income taxes that are assessed and the estimated value of taxes that would be paid if 100 percent of taxpayers were to comply fully with the rules for claiming these deductions and credits. Using the Agency's data, we estimated, within $34 million, that federal, provincial, and territorial personal income tax revenue for 2002–03 would have been $586 million higher, if compliance had been 100 percent. By verifying deductions and credits in about three percent of the returns assessed that year, the Agency recovered $160 million, or 27 percent of the estimated shortfall.

3.41 We recognize that comparing actual tax revenue with an estimated value that would represent 100 percent compliance is a hypothetical exercise and that achieving perfect compliance is not possible. However, comparing actual results against the results for perfect compliance would allow the Agency to determine how well its processing review program identifies non-compliance and whether the dollar impact of non-compliance is worsening over time.

3.42 Measuring the impact of underreporting the income reported by third parties. As already noted, the matching program does not verify all returns in which discrepancies have been identified. The Agency does not analyze those returns to estimate the total amount of tax at risk for returns where discrepancies have been identified but not verified. However, if the Agency did this, it could compare the amount of tax at risk from unreported income subject to third-party reporting over a period of time.

3.43 Recommendation. To better understand trends in taxpayer compliance and to better measure and report on how effective the processing review and matching programs are, the Canada Revenue Agency should

- report longer-term trend information on taxpayer compliance;
- explain significant changes in compliance patterns and how it is addressing them;
- report statistically valid information on the estimated tax impact of non-compliance with the rules for reporting deductions and credits, and for reporting income subject to third-party reporting; and
- report on its performance in identifying and assessing the related amounts.

Agency's response. The Agency does currently report internally on long-term trend analysis, which includes identifying both changes in compliance patterns as well as action plans to address these changes. We will extend this reporting to ensure relevant information is included as part of the annual report to Parliament.

The Agency agrees to forecast potential revenue at risk for both the processing review and matching programs. We will commence estimating this value for these programs and also commence measuring our actual revenue recoveries against these estimates to broaden our program evaluation capacities. For the processing review program we are in a position to do so immediately (and in fact have done so effective for the 2004–05 Annual Report). However, the matching program recently implemented a new system that allows it to capture the required data. Therefore, as historical data is not currently available, it will be at least three to five years before we can estimate this value to an acceptable degree of accuracy.

Verifying income tax returns from domestic trusts

3.44 The Agency reviews all income tax returns from domestic trusts before it issues a notice of assessment. This review checks whether all amounts on the return are supported by the required documents and verifies the accuracy of calculations of the amounts reported on the documents. The Small and Medium Business Audit Program also audits domestic-trust income tax returns. Audits are performed in 45 tax services offices across Canada.

The Agency does not systematically evaluate the tax at risk in domestic trusts

3.45 The *Income Tax Act* provides for two broad categories of trusts **testamentary trusts** and **inter vivos trusts**. In 2004–05 the Agency assessed 105,766 income tax returns of testamentary trusts and 71,150 returns of inter vivos trusts.

Testamentary trust—Is created, when an individual dies, to manage and ultimately distribute his or her property.

Inter vivos trust—Is created during a person's lifetime and includes all other trusts, such as mutual fund trusts and personal trusts.

3.46 Tax officials audit a smaller portion of inter vivos trusts, as compared to testamentary trusts. Most trust audits in the last three years were of testamentary trusts selected from the trusts asking for clearance certificates. (Trustees often request a **clearance certificate** before winding up testamentary trusts and distributing property under their control to ensure that the trust retains enough property to pay any tax liability.)

Clearance certificate—A certification from the Canada Revenue Agency stating that all taxes and any related interest and penalties for which the trust is liable have been paid.

3.47 Because the Agency lacks a systematic approach and sufficient information to evaluate the tax at risk in the entire population of domestic trusts, we looked to the tax recovered by audits as a rough measure of the risk of non-compliance. Over the last three years, the average tax recovered for each audit of an inter vivos trust was $22,300 compared with an average of $4,500 for each audit of a testamentary trust (Exhibit 3.5). These results suggest that the targeting of the Agency's audit effort may need to be re-examined.

3.48 Agency officials agree that they need more information about the amount of tax at risk in trusts. A pilot project was initiated recently to identify the nature and extent of non-compliance issues that are specific to domestic trusts.

Exhibit 3.5 Most audits are of testamentary trusts

Year	Number of audits	
	Inter vivos	Testamentary
2002–03	57	723
2003–04	65	594
2004–05	70	858
Total	**192**	**2,175**
Average tax recovered per audit	$22,300	$4,500

3.49 The Agency is not provided with key information to evaluate level of risk. Financial information is one of the basic necessities for evaluating risk. Unlike corporations, trusts are not required to submit an annual statement of assets and liabilities. Information on the value and the kind of property held in a trust is important in evaluating the relative tax at risk for different kinds of property and for the trust as a whole. Given that trustees are required to report to beneficiaries on their stewardship of the property in a trust, it should not present an onerous compliance burden if the Agency requires a trustee to report a trust's assets and liabilities.

A number of factors have made trust review activities less effective

3.50 Information about assessors' corrections is not retained. Review procedures cover every box and line on the tax return but are generally limited to tracing amounts on the return to the required supporting documents and checking the calculations of the amounts on those documents. Currently, the Agency only measures performance in this area by whether tax officials process a return in the time allotted by the service standard. The Agency's target is to assess 95 percent of tax returns within four months of receiving them. Performance against this service standard is the only information in the Agency's annual performance report to Parliament about domestic trust tax returns.

3.51 Where necessary, an assessor reviewing a trust tax return will correct the information provided on the return. The corrections are recorded, and the taxpayer is notified of them through the notice of assessment. However, the system does not accumulate information on the corrections, including the tax changes, from these reviews. As a result, the Agency does not know the amount of additional tax revenue recovered by its verification activities. Nor does it have information showing where trusts have difficulty complying with the law—information that would help it better target its review efforts and develop appropriate activities to encourage compliance.

3.52 **Income allocated to beneficiaries is not verified.** Generally, a trust is taxed on income it earns unless the income is allocated to beneficiaries in the same year. When a trust reduces its taxable income by allocating income to beneficiaries, it must generally submit a T3 information slip to the Agency and to the beneficiaries showing the amounts allocated to each beneficiary. The beneficiaries must then include that income on their personal tax returns. This control is intended to ensure that either the trust or its beneficiaries are taxed on the income. However, the Agency does not currently verify that the deduction taken by the trust for allocation to beneficiaries matches the total income that the trust has reported on T3 information slips for those beneficiaries.

3.53 We asked tax officials to search the Agency's databases and determine the total income allocated to beneficiaries that trusts had deducted on their 2003 tax returns, and that officials believed would have resulted in a T3 information slip being issued. We also asked them to determine the total income allocated to beneficiaries on the T3 information slips they had received from trusts. We then compared the two totals. The numbers the Agency provided revealed a significant difference. When investigating this difference, Agency officials were able to correct amounts that accounted for a large part of the difference and offer plausible explanations for the remainder. While they are satisfied that a large part of the difference has no tax revenue implication, Agency officials need to complete their investigation and confirm both the reasons for the remaining differences and whether there are tax revenue implications. This finding shows that the Agency needs to put a compliance program in place to verify that the deductions claimed by a trust for allocation to beneficiaries are properly reported by the trust on information slips.

3.54 **Requirement to submit complete information is not enforced.** The Minister of National Revenue specifies which information trusts are required to report on the income tax return as well as any supplementary information. This information acts as an initial control to ensure amounts reported on trust income tax returns are accurate and complete, and it also enables the Agency to do a preliminary evaluation of whether trusts are complying with tax rules. We found instances where the Agency is not enforcing certain requirements to provide information. These practices make the controls less effective and undermine the requirement that the taxpayer file a complete and accurate return.

3.55 **Established procedures are not followed.** Tax rules require some trusts to be taxed on the increase in the value of their assets every 21 years. Assessors verify whether the rule applies to each return they review. If it applies, the assessor would expect to see the appropriate information included with the return so that the assessor can compare the attached information with the income reported on the tax return. To see whether assessors were following established procedures, we selected a sample of 20 trust tax returns for 2004 from a population of 451 that the Agency had identified where the 21-year rule might apply. We confirmed that the rule applied to eight of the twenty returns. In three of the eight cases the required information was not on file. Although this test was limited in size, such a high error rate shows that controls can be improved in this area.

3.56 **Audit codes are of limited use.** The review procedures that assessors complete are limited to a desk review of information provided by taxpayers. In certain circumstances the information provided could warrant that an auditor in the field do an in-depth review. Currently, the Agency asks assessors to input a number of codes in the system to note potential audit issues their review has identified. Our limited review of trust assessment files showed that assessors did not apply the codes consistently in cases where the assessment procedures required it. Auditors in tax services offices told us they could not determine from the automated trust system which trust returns have been given audit codes, nor did they receive referrals from the T3 Processing Section. As a result, the Agency is deciding which trust returns to audit without taking full advantage of information at its disposal.

3.57 **Recommendation.** The Agency should

- systematically evaluate the tax at risk in domestic trusts when it selects income tax returns to verify;
- require trusts to submit a statement of assets and liabilities with their trust income tax returns;
- capture and compile information on corrections and develop reports to assist in, and account for, the management of trust assessing activities;
- complete its examination of the amounts recorded in its databases for income allocated to beneficiaries on 2003 trust tax returns and on 2003 information slips and determine the tax revenue implications, if any, of the differences identified; and

- implement a compliance program to ensure that domestic trusts are properly reporting the income they have allocated to beneficiaries on information slips.

Agency's response. Given the dynamic and evolving nature of trusts, the Agency is reviewing its approach to verifying domestic trust income tax returns, including analysis and consultations on the benefits and costs associated with requiring trusts to submit a statement of assets and liabilities with their income tax returns.

The Agency agrees with the recommendation to capture and compile information on corrections and develop reports to assist in, and account for, the management of trust assessing activities. In that regard, the Agency will build on its recently implemented Quality Evaluation Program to enhance its capacity to evaluate and manage trust assessing activities.

The Agency will complete its examination of the amounts recorded in the databases to ensure that there are no tax revenue implications.

Many situations do not require the filing of information slips. For all others, the Agency is evaluating this recommendation and the implications of more closely linking existing databases and enhancing the filing compliance of domestic trusts with respect to information slips.

Conclusion

3.58 The Agency's processing review program has a well-designed and well-executed risk-based approach for selecting and verifying deductions and credits that individuals have claimed on their tax returns but may not be fully entitled to. The program found that from 1997 to 2003 the percentage of such taxpayers doubled to 11 percent, although according to our estimate, the total revenue at risk has remained relatively constant for the last four years. Using the Agency's data, for 2002–03, we estimated that, had all taxpayers complied fully with the rules for claiming deductions and credits covered by the processing review program, federal, provincial, and territorial revenues from personal income tax that year would have been $586 million higher. Of that amount, the Agency recovered $160 million or 27 percent by verifying about three percent of returns assessed that year.

3.59 The Agency's matching program needs to improve how it manages risk when it verifies that taxpayers have reported the full income shown for them on information slips submitted by third parties. The Agency compares the information that taxpayers provided with information from third parties, identifies any discrepancies, and calculates the amount of income tax that is potentially recoverable for each return, where one or more discrepancies are found. While the matching program selects returns for review based on risk, its estimate of risk does not include the amounts the system calculated that are potentially recoverable. As a result, the Agency does not consistently select and review the returns with the largest amounts of potentially underreported income. Nor does it estimate the tax at risk for returns where it has identified discrepancies but not verified them.

3.60 In not monitoring the tax revenue impact of non-compliance in the areas verified by the processing review and matching programs, the Agency is not considering an important element in evaluating these programs' effectiveness.

3.61 The Agency does not systematically evaluate the tax revenue at risk in domestic trusts when choosing the tax returns it verifies. In addition, the lack of key information is hindering the development of an effective risk evaluation system; this key information includes such details as the value of assets and liabilities held in trusts. The Agency emphasizes audits of testamentary trusts. In the last three years, the average tax that the Agency has been able to recover from audits of testamentary trusts has been about five times smaller than average recoveries from audits of other trusts.

3.62 There are also deficiencies in the Agency's review activities for tax returns of domestic trusts. For example, the only measure of its performance in this area is whether a return was processed in the time that the Agency allots in its service standard; it lacks information on corrections that its assessors make; and it does not compare deductions claimed by trusts for allocation to beneficiaries against the amounts that the trust reported on the information slips provided to beneficiaries.

About the Audit

Objectives

The objective of the audit was to assess how well the Agency identifies and manages the risk that individuals and domestic trusts might fail to comply with the law when preparing their income tax returns, and how well it uses information from third parties in verifying personal income tax returns.

Scope, approach, and criteria

The audit covered verification programs for income tax returns of individuals and domestic trusts (other than registered trusts, such as RPPs and RRSPs).

For personal or individual income tax returns we focussed on the verification activities related to employment income, investment income, pension, and other passive income or losses and any other type of income reported on an information return and "line item" deductions and credits. We looked at how the Agency's seven verification programs interrelate to address all aspects of the tax return. We reviewed the extent, nature, and timing of the Agency's verification procedures for

- income fields subject to matching with third-party slips;
- selected claims, including the disability tax credit; and
- the taxpayer's province of residence, marital status, and number of children.

We looked at the design and implementation of compliance measurement and file selection and at resourcing methodology for the confidence validity, processing review, and matching programs, and verified the accuracy of the information on audit results. We validated the Agency's information on compliance levels over the last seven years for deductions and credits subject to the processing review program, and we extrapolated the tax at risk in the entire population from the results of the Agency's verification of randomly selected returns for four years.

We reviewed the extent to which the Agency uses the following information slips submitted to it by third parties: T4, T4A, T3, T5, T5003 (tax shelter), T5008 (security transactions), T5013 (partnership income), and T101 (resource expenses). We also looked at the Agency's plans to match slips for RRSP contributions.

For domestic trust income tax returns, we looked at the pre-assessment review activities carried out at the Ottawa Technology Centre and the result of audit work performed by the Compliance Programs Branch for the previous three years. We discussed with Agency officials the scope and timing of a pilot project aimed at gathering sufficient information to develop a new audit strategy for domestic trusts.

Because we did not cover specialty audit programs such as tax avoidance and international tax, our audit did not cover the Agency's compliance activities for non-resident or foreign trusts.

We expected the Agency to

- have adequate verification procedures for all the fields in a tax return,
- rank tax returns for verification according to risk,
- capture complete and accurate results of its verifications,
- address known areas of non-compliance, and
- make reasonable use of information slips that the law requires third parties to submit to the Agency.

These criteria were based on the Agency's annual performance report and related documents.

Audit team

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Appendix List of recommendations

The following is a list of recommendations found in Chapter 3. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

[illegible]	[illegible]
Verifying income subject to third-party reporting	
3.31 To improve the results of the matching program, the Agency should • fully document and support the basis for selecting returns to verify; and • verify returns in decreasing order of expected income tax recovery, in its work aimed at tax recovery. **(3.19–3.30)**	The Agency agrees to fully document and support the basis for selecting returns to verify. With respect to verifying returns in decreasing order of expected income tax recovery, the Agency agrees that case prioritization is important. However, it is not the only criterion that needs to be taken into consideration to produce better results for this business line. The Agency will study how to improve its matching process to ensure that resources are expended on the best cases and is in the process of analyzing several alternatives to improve its current practices.
3.34 The Agency should develop and implement a strategy to make better use of information returns on tax shelters, partnership income, and flow-through shares in its compliance activities for personal income tax returns. **(3.32–3.33)**	The Agency recognizes the importance of effectively utilizing information returns in its compliance activities. While the information received on tax shelter returns, flow-through share returns, and partnership returns is not designed to be automatically matched to taxpayers' files, the Agency does, as the Auditor General notes, use the information on tax shelter returns and on flow-through share returns to evaluate tax risk for audit purposes, and to verify compliance with tax laws. Concerning partnership returns, the Agency instituted a pilot project in April 2005 to assess the benefit of capturing partnership information into an audit database to improve risk ranking for audit purposes. The Agency will use the results of the pilot project to determine how best to utilize information returns in its compliance activities.

Recommendation	Agency's response
Measuring and reporting compliance	
3.43 To better understand trends in taxpayer compliance and to better measure and report on how effective the processing review and matching programs are, the Canada Revenue Agency should • report longer-term trend information on taxpayer compliance; • explain significant changes in compliance patterns and how it is addressing them; • report statistically valid information on the estimated tax impact of non-compliance with the rules for reporting deductions and credits, and for reporting income subject to third-party reporting; and • report on its performance in identifying and assessing the related amounts. **(3.35–3.42)**	The Agency does currently report internally on long-term trend analysis, which includes identifying both changes in compliance patterns as well as action plans to address these changes. We will extend this reporting to ensure relevant information is included as part of the annual report to Parliament. The Agency agrees to forecast potential revenue at risk for both the processing review and matching programs. We will commence estimating this value for these programs and also commence measuring our actual revenue recoveries against these estimates to broaden our program evaluation capacities. For the processing review program we are in a position to do so immediately (and in fact have done so effective for the 2004–05 Annual Report). However, the matching program recently implemented a new system that allows it to capture the required data. Therefore, as historical data is not currently available, it will be at least three to five years before we can estimate this value to an acceptable degree of accuracy.

Recommendation	Agency's response
Verifying income tax returns from domestic trusts	
3.57 The Agency should • systematically evaluate the tax at risk in domestic trusts when it selects income tax returns to verify; • require trusts to submit a statement of assets and liabilities with their trust income tax returns; • capture and compile information on corrections and develop reports to assist in, and account for, the management of trust assessing activities; • complete its examination of the amounts recorded in its databases for income allocated to beneficiaries on 2003 trust tax returns and on 2003 information slips and determine the tax revenue implications, if any, of the differences identified; and • implement a compliance program to ensure that domestic trusts are properly reporting the income they have allocated to beneficiaries on information slips. **(3.45–3.56)**	Given the dynamic and evolving nature of trusts, the Agency is reviewing its approach to verifying domestic trust income tax returns, including analysis and consultations on the benefits and costs associated with requiring trusts to submit a statement of assets and liabilities with their income tax returns. The Agency agrees with the recommendation to capture and compile information on corrections and develop reports to assist in, and account for, the management of trust assessing activities. In that regard, the Agency will build on its recently implemented Quality Evaluation Program to enhance its capacity to evaluate and manage trust assessing activities. The Agency will complete its examination of the amounts recorded in the databases to ensure that there are no tax revenue implications. Many situations do not require the filing of information slips. For all others, the Agency is evaluating this recommendation and the implications of more closely linking existing databases and enhancing the filing compliance of domestic trusts with respect to information slips.

Report of the Auditor General of Canada to the House of Commons—November 2005

Main Table of Contents

Matters of Special Importance—2005
Main Points—Chapters 1 to 8

Chapter 1 Royal Canadian Mounted Police—Contract Policing

Chapter 2 The Quality and Reporting of Surveys

Chapter 3 Canada Revenue Agency—Verifying Income Tax Returns of Individuals and Trusts

Chapter 4 Managing Horizontal Initiatives

Chapter 5 Support to Cultural Industries

Chapter 6 Elections Canada—Administering the Federal Electoral Process

Chapter 7 Indian and Northern Affairs Canada—Meeting Treaty Land Entitlement Obligations

Chapter 8 Other Audit Observations

Appendices

2005

Report of the
Auditor General of Canada
to the House of Commons

NOVEMBER

Chapter 4
Managing Horizontal Initiatives

Office of the Auditor General of Canada

The November 2005 Report of the Auditor General of Canada comprises Matters of Special Importance—2005, Main Points—Chapters 1 to 8, eight chapters, and appendices. The main table of contents is found at the end of this publication.

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Chapter

4

Managing Horizontal Initiatives

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Table of Contents

Main Points 1

Introduction 3

- Horizontal initiatives and the federal government 3
- Three initiatives we examined 4
- Focus of the audit 6

Observations and Recommendations 7

- Governance and co-ordination 7
  - Inadequate implementation of the governance structure for the Canadian Biotechnology Strategy 7
  - Weak federal co-ordination for homelessness 11
  - Promising governance model for the Vancouver Agreement 15
- Accountability and learning 17
  - All three initiatives were not well defined 17
  - Lack of planning for overall performance measurement 18
  - Reporting to Parliament is weak 18
- Insufficient attention by central agencies 19
  - Approval process for horizontal initiatives needs to be improved 20
  - Need for a management framework 22
  - Funding instruments need review 23

Conclusion 25

About the Audit 28

Appendices

- A. Program descriptions 31
- B. National Homelessness Initiative funding 34
- C. Programs affecting homelessness: Toronto 35
- D. List of recommendations 36

Managing Horizontal Initiatives

Main Points

What we examined

This audit looked at federal policies, government-wide guidance, and the role of central agencies in creating, co-ordinating, and overseeing initiatives that involve a number of organizations. We examined in more detail how the federal government approached three such initiatives—the Canadian Biotechnology Strategy, the National Homelessness Initiative, and the Vancouver Agreement (an urban development initiative).

We focussed on how the federal government managed and co-ordinated its efforts in these initiatives and what impact this had on their results. While we do not comment on the merits of the initiatives or the performance of other participating governments and organizations, we interviewed officials from these entities and benefited from their insights.

Why it's important

The federal government has recognized the need to deal with complex issues that cross jurisdictional boundaries and defy simple solutions. Some of these problems have multiple causes, have developed over a long period of time, and cannot be addressed by individual departments or governments. They require a response by a number of organizations, often through horizontal initiatives.

The federal government needs to find effective ways to manage such efforts across several federal organizations, while respecting the fundamental principles of ministerial responsibility. The efficient use of resources in delivering programs and services depends on integrated decision making across federal organizations. Moreover, when horizontal management is inadequate, the government is less likely to achieve the results it has promised to Canadians.

What we found

- Although there have been some recent improvements, much of the federal government's approach to horizontal initiatives is still on a case-by-case basis. Central agencies have not determined the kinds of circumstances that require a horizontal initiative and the kind of governance needed. They have not developed enough specialized tools for the governance, accountability, and co-ordination of federal efforts in such initiatives and have made little progress in developing means of funding horizontal programs.

- Two of the three initiatives we examined made inadequate arrangements for governance and co-ordination. For example, the Canadian Biotechnology Strategy did not deal adequately with advice from external experts. Due to a lack of federal co-ordination, the National Homelessness Initiative did not benefit adequately from the available federal expertise on health and housing.
- There was little planning in any of the three initiatives for measuring and reporting on how federal organizations would contribute to the initiative as a whole. Most reporting has focussed on individual federal programs. As a result, Parliament does not have an overall picture of what the initiatives are achieving.
- We found a promising governance model in the Vancouver Agreement, where the provincial, municipal, and federal governments are working together to meet community needs. The approach was developed from the ground up and evolved from an unfunded initiative with an agreement to collaborate to one that is funded.

The government has responded. The Treasury Board of Canada Secretariat and the Privy Council Office's response, on behalf of the government and the federal organizations we audited, is included at the end of this Chapter. The government respects the spirit of our recommendations and recognizes the need for improvements in managing horizontal initiatives.

Introduction

Horizontal initiatives and the federal government

4.1 Given the federal nature of Canada, its diverse regional interests, and its size, federal organizations have to work well with each other and with other levels of government. In recent years, other factors have increased the need to work effectively:

- Communities expect more integrated program delivery.
- Governments have to deal with external factors, such as globalization, rapid technological change, and health and security risks.

4.2 The federal government has recognized the need to find effective ways to work on complex socio-economic issues that cross organizational or jurisdictional boundaries, defy simple solutions, typically have multiple causes, and have developed over a long time. Such problems cannot be addressed by individual departments or governments; they require a response by a number of departments, often through horizontal initiatives. In so doing, departments must respect the fundamental principles of ministerial accountability.

4.3 Two initiatives we examine in this chapter—the National Homelessness Initiative and the Vancouver Agreement—address such complex issues. The third initiative, the Canadian Biotechnology Strategy, has important implications for the economy, health, and the environment.

4.4 Lack of attention to managing horizontal initiatives is something no government can afford because it can

- reduce public service effectiveness if the expected collective results are not achieved,
- jeopardize the efficient use of resources, and
- increase the risk of program overlap and duplication.

4.5 A number of jurisdictions have addressed the need for horizontal co-ordination by creating organizational structures at the centre of government.

- In the United Kingdom, the government established co-ordinating units to foster "joined-up government" and monitor the progress of cross-government initiatives. The units have the central authority to move forward on these initiatives, where necessary.

- In Australia, the federal government and the state of Queensland established units in central agencies to advise the Cabinet on the implementation status of horizontal and other key initiatives. They also advise the government agencies in charge of those initiatives on planning, and they ensure that horizontal co-ordination aspects are considered.
- In Alberta, the Cabinet established cross-ministry initiatives in 1997–98 to achieve a government-wide agenda and to work in an integrated way.

4.6 The Government of Canada is committed to managing horizontal issues effectively. In recent years, the Speech from the Throne has consistently identified such issues in the government's plans. Horizontal initiatives have also been a concern of parliamentary committees.

Three initiatives we examined

4.7 We looked at how the federal government provides for horizontal management and also examined three specific initiatives: the Canadian Biotechnology Strategy, the National Homelessness Initiative, and federal participation in the Vancouver Agreement. Exhibit 4.1 describes the funding and the federal organizations we examined for each initiative. Appendix A provides details on the major programs that are relevant to each initiative.

4.8 **The Canadian Biotechnology Strategy.** In 1998 the federal government announced the strategy to enhance the quality of life of Canadians—in the areas of health, safety, the environment, and social and economic development. The strategy aims to position Canada as a responsible world leader in biotechnology by

- modernizing the regulatory system,
- supporting cutting-edge research and development,
- increasing access to investment capital,
- strengthening Canada's intellectual capital,
- engaging Canadians directly in shaping relevant policies,
- creating highly qualified human resources, and
- updating patent laws.

4.9 The National Homelessness Initiative. In 1999, the federal government responded to the homelessness crisis by announcing funding for homelessness programs; this response is commonly known as the National Homelessness Initiative. This initiative aims to help

- homeless individuals become self-sufficient,
- communities strengthen their capacity to address the needs of their homeless population, and
- build a knowledge base about homelessness.

Exhibit 4.1 The three initiatives we examined

Initiative	Federal funding	Participants	Selected federal organizations we examined
Canadian Biotechnology Strategy	$396 million (1998–99 to 2005–06)	Federal departments and agencies	Agriculture and Agri-Food Canada Canadian Food Inspection Agency Canadian Institutes of Health Research Environment Canada Fisheries and Oceans Canada Foreign Affairs Canada, and International Trade Canada Health Canada Industry Canada National Research Council Canada Natural Resources Canada Treasury Board Secretariat
National Homelessness Initiative	$1.158 billion Phase 1: $753 million (1999–2003) Phase 2: $405 million (2003–06)	The federal government, other levels of government, and community partners	Canada Mortgage and Housing Corporation Health Canada[1] Human Resources and Skills Development Canada Public Health Agency of Canada[1] Public Works and Government Services Canada Treasury Board Secretariat
Vancouver Agreement	$22 million (1999–2000 to 2004–05)	City of Vancouver, Province of British Columbia, and the federal government	Health Canada Human Resources and Skills Development Canada Privy Council Office (subsequently Infrastructure Canada[2]) Public Health Agency of Canada Treasury Board Secretariat Western Economic Diversification Canada

[1] Health Canada and the Public Health Agency of Canada did not receive funds under the National Homelessness Initiative.

[2] The Cities Secretariat was moved from the Privy Council Office to Infrastructure Canada during our audit.

4.10 **Federal participation in the Vancouver Agreement.** This initiative differs from the other two because it is both a tripartite and a horizontal initiative. It involves three levels of government—federal, provincial, and municipal. In 2000 they came together and signed an agreement to address urban decay in Vancouver's downtown east side. For its first three years the agreement was unfunded. In 2003 funds were identified and announced but funding did not flow until 2004. In 2005 the agreement was renewed with the aim to

- create a healthy, safe, and sustainable community;
- promote economic and social development; and
- build community capacity and partnerships among the public, private, not-for-profit, and voluntary sectors.

4.11 Chapter 5 of this Report, Support to Cultural Industries, also looks at managing horizontal initiatives, in particular the need for effective governance.

Focus of the audit

4.12 The objectives of this audit were to

- determine, for the three initiatives we examined, whether federal organizations provided for governance, accountability, and co-ordination; the extent to which federal organizations used performance information to improve and learn; and the adequacy of the role of the central agencies; and
- assess, on a government-wide basis, the leadership, guidance, and support provided by the Treasury Board Secretariat. This also involved the Privy Council Office.

We focussed on the co-ordination function and its impact on results.

4.13 We did not audit all of the federal partners named in the public documents for the Canadian Biotechnology Strategy and the Vancouver Agreement because some organizations had little or no role. In examining the National Homelessness Initiative, we included Health Canada and the Public Health Agency of Canada because of the link between health and homelessness.

4.14 More information on the objective, scope, approach, and criteria can be found at the end of this Chapter in **About the Audit**.

Observations and Recommendations

4.15 The federal government is committed to working across organizational boundaries if necessary. Its *Guidance for Deputy Ministers* states that "the need to co-ordinate the responsibilities of several Ministers in order to take certain initiatives is now the rule rather than the exception." The three initiatives we examined illustrate that there are many approaches to governance, co-ordination, accountability, and learning in horizontal initiatives. However, they also show that central agencies need to address some key barriers to managing horizontal initiatives.

Governance and co-ordination

Inadequate implementation of the governance structure for the Canadian Biotechnology Strategy

4.16 The government's intentions for the Canadian Biotechnology Strategy, announced in 1998, were far reaching

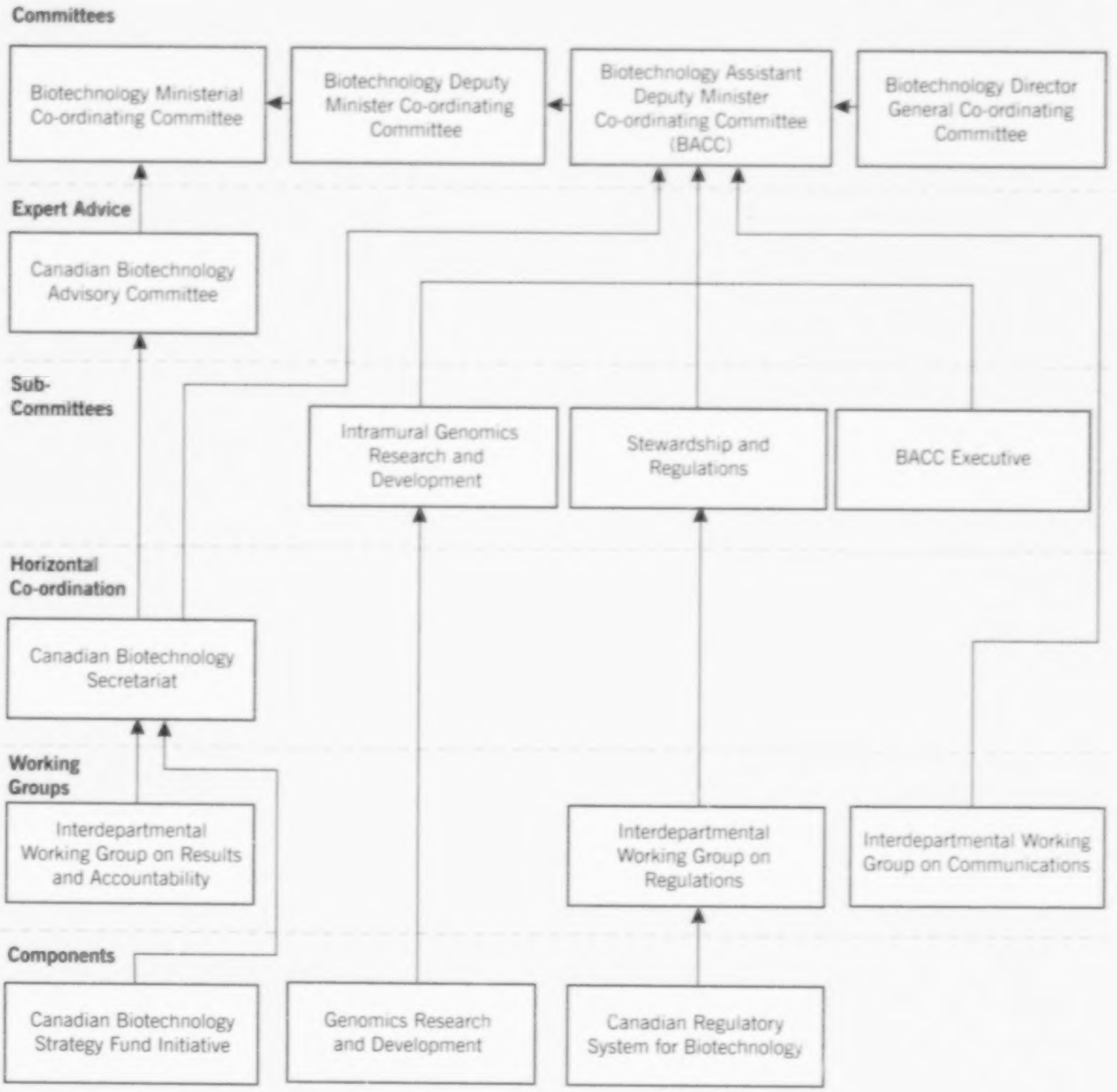
> The strategy will ensure that biotechnology continues to enhance Canadians' quality of life in terms of health, safety, the environment, and social and economic development. Biotechnology is one of the world's fastest-growing technologies. Its potential benefits may rival those offered by the convergence of information and communications technologies. It offers tremendous economic opportunities, particularly in exports and job creation.

4.17 One aim of the strategy was to improve the way the government co-ordinated biotechnology as a horizontal issue. Exhibit 4.2 shows the governance structure set up to achieve this co-ordination.

4.18 **Leadership needs to be strengthened.** The Biotechnology Ministerial Co-ordinating Committee is composed of the ministers of Agriculture and Agri-Food Canada, Environment Canada, Fisheries and Oceans Canada, Foreign Affairs, and International Trade, Health Canada, Industry Canada, and Natural Resources Canada. The Minister of Industry Canada is the chair. While all ministers share accountability for the strategy, each controls and is responsible for areas under their mandate. We expected that the committee would have been active in providing leadership to implement action plans to achieve the strategy's goals.

4.19 The Canadian Biotechnology Advisory Committee provides biotechnology ministers with independent advice on emerging biotechnology policy issues from senior experts. We expected that ministers would receive and consider advice in a timely way, given that rapid changes in biotechnology can affect health, safety, the environment, and the economy.

Exhibit 4.2 The Canadian Biotechnology Strategy—governance structure


Committees
Biotechnology Ministerial Co-ordinating Committee
Biotechnology Deputy Minister Co-ordinating Committee
Biotechnology Assistant Deputy Minister Co-ordinating Committee (BACC)
Biotechnology Director General Co-ordinating Committee
Expert Advice
Canadian Biotechnology Advisory Committee
Sub-Committees
Intramural Genomics Research and Development
Stewardship and Regulations
BACC Executive
Horizontal Co-ordination
Canadian Biotechnology Secretariat
Working Groups
Interdepartmental Working Group on Results and Accountability
Interdepartmental Working Group on Regulations
Interdepartmental Working Group on Communications
Components
Canadian Biotechnology Strategy Fund Initiative
Genomics Research and Development
Canadian Regulatory System for Biotechnology

Source: Canadian Biotechnology Secretariat

4.20 The key departments were also represented on the Biotechnology Deputy Minister Co-ordinating Committee and the Biotechnology Assistant Deputy Minister Co-ordinating Committee (BACC). The Canadian Biotechnology Secretariat, reporting to the BACC, was to support and provide co-ordination for these committees and ensure that information among federal departments and agencies was exchanged. Working groups would also be created as needed. We expected that the deputy minister co-ordinating committee would provide leadership for the strategy and that the BACC would manage the strategy.

4.21 We found a lack of top-level leadership for the strategy. The ministerial co-ordinating committee has met only once in six years, and the deputy minister co-ordinating committee has not met since 2002. We found that some of the advisory committee's recommendations had been considered by the working groups. However, we found that the mechanism for addressing external advice did not function as planned. By April 2005, the ministerial co-ordinating committee had not officially responded to a number of advisory committee reports that required prompt action (Exhibit 4.3).

4.22 **Timely and public government response.** When the External Advisory Committee on Smart Regulation presented its report on Smart Regulation, the government responded publicly to the recommendations within six months, setting out specific targets for implementation. The committee's report covered many sectors, including biotechnology, and recognized previous recommendations made by the Canadian Biotechnology Advisory Committee.

Exhibit 4.3 The Biotechnology Ministerial Co-ordinating Committee and advisory committee reports

Canadian Biotechnology Advisory Committee reports	Date of issue	Date the government committed to respond	Status of response as of April 2005
Patenting of Higher Life Forms and Related Issues. This report sets out the social, ethical, and legal issues of patenting plants and animals.	June 2002	No commitment	No response
Improving the Regulation of Genetically Modified Foods and Other Novel Foods in Canada. This report discusses the benefits from biotechnological innovation in food production while providing reasonable protection against potential harms.	August 2002	End of 2002	No response
Biotechnology and the Health of Canadians. This report describes the potential role of biotechnology for disease prevention, diagnosis, and treatment. It discusses some of the social and ethical considerations of biotechnology and sets out a policy framework.	December 2004	No commitment	No response

4.23 **Working level co-ordination.** The evolution of the biotechnology strategy was delayed due to the absence of clear direction and leadership from the top level of the governance structure. By 2003, working-level officials recognized that the policy framework for the Strategy was outdated—technological changes needed to be reflected. They started work on the *Government of Canada Blueprint for Biotechnology*—developing a new vision to move the strategy forward.

4.24 In 2004, BACC approved the Blueprint as a way to renew the strategy. It shifted the approach from stewardship and innovation, as separate issues, to recognizing the interplay between innovation, commercialization, stewardship, and international dimensions.

4.25 Since 2004, the Blueprint has been used to select and fund Canadian Biotechnology Strategy Fund projects, and has influenced the direction of biotechnology work in the strategy's regulatory and research and development areas.

4.26 **Risk of federally funded organizations working at cross-purposes.** Given that the federal government's purpose for the strategy was to achieve a coherent approach to biotechnology, we expected that major federal spending on biotechnology would be co-ordinated with the strategy. However, between 2000 and 2004 the federal government transferred $375 million to Genome Canada, a non-profit foundation that provides research grants in areas related to the strategy. This amount is almost as much as the total funding that the strategy will have received—$396 million from 1998–99 to 2005–06.

4.27 While two federal organizations we examined told us that the operations of Genome Canada and the strategy were not aligned, other departments told us that they were working with Genome Canada indirectly through partners. We could not examine Genome Canada's operations because, at the time of our audit, we did not have the mandate to do so. We are concerned that without adequate co-ordination, federally funded organizations—departments and foundations—may be working at cross-purposes. We raised this issue in our February 2005 Report, Chapter 4, Accountability of Foundations.

4.28 Overall, the Canadian Biotechnology Strategy has not functioned as planned. It was designed for leadership from the top, which was not provided; however, management and working-levels did provide some co-ordination.

Weak federal co-ordination for homelessness

4.29 **A community-based approach.** In 1999 the federal government established the National Secretariat on Homelessness in Human Resources Development Canada (now Human Resources and Skills Development Canada) to be responsible for the design and delivery of the National Homelessness Initiative (Appendix B provides details on funding and the federal organizations involved). Officials informed us that the initiative was designed to support community efforts by encouraging co-operation between governments and other organizations. The initiative focussed initially on emergency shelters, then on transitional and supportive housing and on building "a continuum of supports" that would help bring homeless people to self-sufficiency. The initiative included prevention and outreach, support services, health care, and skills development. Most of the federal funding was used for capital projects, including the construction of shelters, transitional and supportive housing, and support facilities.

4.30 The National Secretariat was also responsible for ensuring co-ordination among federal partners. Although some initiative activities brought federal organizations together at the national level, we found a lack of precision and detail on structures, roles, and responsibilities of federal organizations that were funded under the initiative and those that had existing and related programs.

4.31 The initiative established new programs, for example

- the **Supporting Communities Partnership Initiative**, administered by Human Resources and Skills Development Canada, and
- the Surplus Federal Real Property for Homelessness Initiative—a horizontal initiative between Public Works and Government Services Canada and the National Secretariat on Homelessness (as the lead organization), with assistance from the Canada Mortgage and Housing Corporation.

The Supporting Communities Partnership Initiative—It was selected as a best practice by the United Nations Habitat 2002 Dubai International Awards for Best Practices. Best practices are initiatives that have made outstanding contributions to improving the quality of life in cities and communities around the world.

4.32 The initiative also increased funding for two existing programs in the Canada Mortgage and Housing Corporation:

- the Residential Rehabilitation Assistance Program, and
- the Shelter Enhancement Program.

4.33 Human Resources and Skills Development Canada generally transferred money through contribution agreements to community groups. The Canada Mortgage and Housing Corporation programs provided funding to building owners for repairs and modifications, with the exception of the Shelter Enhancement Program, which also funded community groups. In two of the three cities we looked at—Toronto and Edmonton—the Supporting Communities Partnership Initiative and the Residential Rehabilitation Assistance Program were delivered by municipalities or community organizations, acting for the federal government (Appendix C provides examples of the programs affecting homelessness in Toronto).

4.34 In collaboration with other levels of government, the initiative supported a range of services to help homeless people make a sustainable transition from the streets to a more secure life. For example

- the Salvation Army Harbour Light Centre in Vancouver operates different types of shelter services and a detoxification centre for drug addiction; and
- the WINGS (Women in Need Growing Stronger) of Providence in Edmonton operates a transitional shelter, with security systems and special services, for women and children fleeing violent situations.

4.35 We expected that federal organizations would co-ordinate their efforts to reduce homelessness by

- bringing related programs together;
- redesigning existing programs, if necessary, when new ones were introduced; and
- drawing on the various federal areas of expertise.

4.36 **Links between homelessness and health programs.** Governments and other organizations have shown strong links between health issues and homelessness (Exhibit 4.4). We expected to find federal co-ordination between the National Homelessness Initiative and key related federal activities, including those that did not receive funding under the initiative.

4.37 Although Health Canada was invited in 1999 to be a formal partner in the homelessness initiative, neither Health Canada nor the Public Health Agency of Canada, created in 2004, are partners. Health Canada officials informed us that they work with other federal organizations on an ad hoc basis, providing case-by-case expertise.

4.38 Officials in Health Canada and the Public Health Agency of Canada explained that they follow a population health approach—improve the health of the entire population, and reduce inequities by addressing factors that determine health. Both departments have a number of programs for vulnerable populations, including homeless people or those at risk of being homeless. These programs include, for example, the Canadian Strategy on HIV/AIDS, the Hepatitis C program, and the Canada Prenatal Nutrition program (see Appendix A for a brief description of programs).

4.39 The National Homelessness Initiative and the programs in Health Canada and the Public Health Agency of Canada are emphasizing partnerships and capacity building in communities, developing a sustained national response to complex issues, and focussing on targeted groups for services.

4.40 We found that, in a number of cases, Human Resources and Skills Development Canada, Health Canada, and the Public Health Agency of Canada worked with the same service providers and targeted the same homeless population. For example, some community organizations received funding from the AIDS and hepatitis C programs and from Human Resources and Skills Development Canada programs for homeless people. When we reviewed the files and interviewed regional officials, we did not find sufficient evidence of co-ordination between these federal organizations.

Exhibit 4.4 Homelessness: A fundamental health issue for Canadians

Studies of the homeless suggest that although their illnesses are not different from those of the general population, their living conditions adversely affect their overall short- and long-term health. A Toronto study of death among the homeless from 1979 to 1990 showed that 71 percent died before reaching 70 years old, compared to 38 percent for the housed population.

Health Canada's 1999 report, *Toward a Healthy Future*, observed that "no condition demonstrates the importance of adequate housing for health better than the problem of homelessness." Homeless people

- have a range of chronic health problems due to their extreme poverty, lack of stable housing, and exposure to elements on the street;
- have an increased mortality rate due to exposure, substance abuse overdoses, and alcoholic liver disease;
- face climatic conditions, psychological strain, and exposure to communicable diseases that produce a range of health problems including tuberculosis, cardio-respiratory disease, nutritional deficiencies, and injury from cold; and
- are less likely to receive adequate medical care and more likely to use emergency medical services.

In the late 1990s, Canadian public health experts concluded that "homelessness has emerged as a fundamental health issue for Canadians."

Sources: Canadian Public Health Association and the Federal, Provincial and Territorial Advisory Committee on Population Health

4.41 Co-ordination goes beyond funding. Health Canada did not work with other departments to address policy gaps or develop implementation strategies where it was working with the same service providers. The National Homelessness Initiative did not adequately benefit from the expertise of Health Canada and the Public Health Agency of Canada; opportunities to enhance the federal contribution to the homelessness issue were missed.

4.42 **Homelessness and housing.** We expected that the Canada Mortgage and Housing Corporation would co-ordinate its activities with other federal programs on homelessness and share its expertise on housing. We noted that their renovation programs (for example, the Residential Rehabilitation Assistance Program) were in place since the 1970s and were not specifically targeted at the homeless population. They had modified some of their programs to deal immediately and more directly with the homelessness crisis, while the new programs were being put in place. However, according to the Corporation, there was no official horizontal framework in place for federal co-ordination.

4.43 We reviewed announcements and official documents for the initiative. We found references that the Canada Mortgage and Housing Corporation would be significantly involved in Phase 1 of the initiative, and expectations that it would co-ordinate with other federal organizations.

4.44 For Phase 2, the Corporation and Human Resources and Skills Development Canada (HRSDC) agreed that

- HRSDC would target the absolute homeless—those in need of shelter and related services; and
- the Corporation would target the relative homeless—those at risk of becoming homeless.

The government provided funding to extend the Corporation's renovation programs for the period covered by Phase 2 (2003–06) of the initiative. However, the initiative's *2003–2006 Business Plan* did not identify the Canada Mortgage and Housing Corporation's Residential Rehabilitation Assistance and the Shelter Enhancement programs as part of the federal response to homelessness.

4.45 We found that HRSDC and the Corporation did not distinguish between the absolute and relative homeless in managing their programs. For example, the terms and conditions for both phases of the Supporting Communities Partnership Initiative show the relative homeless as part of the target population. We also reviewed the types of projects funded by HRSDC and by the Corporation and found that they did not change between the two phases.

4.46 In Toronto, Edmonton, and Vancouver, we found that the Corporation and HRSDC were funding the same types of capital projects, such as shelters and transitional and supportive housing. In some cases, they were funding different activities in the same buildings. In many instances, we found that the Corporation managed the Residential Rehabilitation Assistance and the Shelter Enhancement programs separately from other federal programs directed at the homeless population. In some cases, we did not find evidence of federal co-ordination, except for the official opening ceremony.

4.47 In Phase 2, the Corporation continued to fund shelter renovations which, in our view, needed to be co-ordinated with HRSDC to ensure sustainable support services for the shelters. In Edmonton, the Corporation's advice was not adequately considered in the project selection process. In Toronto, the Corporation and HRSDC transferred the program administration for the Residential Rehabilitation Assistance Program and the Supporting Communities Partnership Initiative to the City of Toronto. However, they did not work together on how these two programs could be better aligned for delivery by the city.

4.48 Despite some early efforts to modify its programs, in the three cities we examined, we found that the Canada Mortgage and Housing Corporation could have done more to bring its housing expertise to federally supported projects for the homeless population.

Promising governance model for the Vancouver Agreement

4.49 We found that the Vancouver Agreement had a promising governance model with provincial, municipal, and federal governments working together to meet the needs of the community (Exhibit 4.5). This agreement started at the grass roots and evolved from an unfunded collaborative agreement, to one that is funded. We did not audit the agreement, only federal participation in it.

4.50 We found that Western Economic Diversification Canada provided leadership as the federal representative. There was active and ongoing federal engagement at intergovernmental committees (Exhibit 4.6 shows the governance structure for the Agreement). Federal representatives were supported by a group of officials from Western Economic Diversification Canada, Human Resources and Skills Development Canada, and Health Canada.

4.51 There was also some co-ordination between the activities of the Vancouver Agreement and the National Homelessness Initiative. The Vancouver Agreement's task team on homelessness and housing met monthly, leading to increased co-ordination between Human Resources and Skills Development Canada and the British Columbia and Yukon office of the Canada Mortgage and Housing Corporation.

Exhibit 4.5 Vancouver Agreement—a promising model

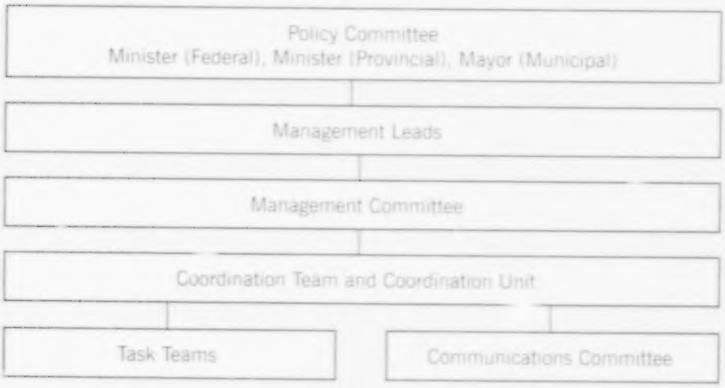
The Vancouver Agreement has become a benchmark for other urban development agreements in Western Canada. It began in 2000 as an unfunded agreement to dovetail existing federal programs from different departments with provincial and municipal services so that the needs of the community could be more effectively addressed. In April 2003, the agreement became a funded initiative when the federal and provincial governments agreed to commit $10 million each.

The agreement has received three major awards:

- the Institute of Public Administration of Canada's Award for Innovative Management for Horizontal Collaboration in 2004;
- the United Nations' Public Service Award for "improving transparency, accountability and responsiveness in public service" in 2005, which cited the agreement for its innovative partnership with government agencies, community groups, and businesses; and
- the Association of Professional Executives of the Public Service of Canada Partnership Award in 2005.

Officials from all three levels of government told us that flexibility was an important characteristic of the agreement. They identified broad principles but there was flexibility in how the objectives would be achieved. This allowed the arrangement to evolve as the relationships between the governments were built.

Exhibit 4.6 Governance structure for the Vancouver Agreement


Policy Committee
Minister (Federal), Minister (Provincial), Mayor (Municipal)
Management Leads
Management Committee
Coordination Team and Coordination Unit
Task Teams
Communications Committee

Source: Vancouver Agreement Coordination Unit

Accountability and learning

4.52 We expected that federal organizations participating in a horizontal initiative would clearly describe

- how involved they would be;
- what they would contribute; and
- how they would measure, learn, and report their progress.

We also expected that federal organizations would learn from each other and work together more effectively, using performance information to improve at key stages.

All three initiatives were not well defined

4.53 For all three initiatives—the Canadian Biotechnology Strategy, the National Homelessness Initiative, and the Vancouver Agreement—we found that it was not always clear which federal organizations were involved and how they were to participate. This weakens accountability arrangements, and ultimately, reporting on outcomes and learning by federal organizations. For example in the Vancouver Agreement, the responsibilities of Western Economic Diversification Canada—the lead federal department—were not defined for broader responsibilities in planning, monitoring, information management, reporting, and communications.

4.54 For all three initiatives, the participating departments' roles and expectations were not well defined. In some cases, public documents identified more departments than were involved in the initiatives. In our view, there is a need for a more disciplined process to define what is expected from participating departments so that the extent of the federal efforts is clear.

4.55 Not clearly defining the initiative can cause confusion for reporting purposes. For example, there were no criteria to determine why certain working groups or projects in the biotechnology area were considered to be part of the Canadian Biotechnology Strategy, while others were not. This led to disagreements between federal organizations. In some cases, only certain elements of a large project received funding through the strategy. It was not clear whether the entire project should be considered part of the strategy.

4.56 The Vancouver Agreement received direct funding from Western Economic Diversification Canada. For public reporting the Vancouver Agreement also included projects from other federal programs that were "in the spirit" of the agreement. However, the federal government did not have criteria to determine which projects were in that category. Also, information on what the federal government actually contributed to the agreement was not readily available or was inconsistent. For example, although one project received funding from three federal departments, it was only considered to be "in the spirit" of the agreement by one of the departments.

Lack of planning for overall performance measurement

4.57 Reporting on horizontal initiatives requires advance planning. One way to plan is to develop an accountability framework that shows the objectives of the initiative, the expected results, and how progress will be measured. The Treasury Board Secretariat provides guidance for various types of accountability frameworks, including horizontal initiatives. We found the following for the three initiatives:

- Each of the three components of the Canadian Biotechnology Strategy—the Canadian Biotechnology Strategy Fund, the Canadian Regulatory System for Biotechnology, and Genomics Research and Development—had an accountability framework, but the strategy as a whole did not have an accountability framework. The Canadian Biotechnology Secretariat only tracked results and outcomes for the Canadian Biotechnology Strategy Fund, but not the regulatory or genomics program activities.
- The National Homelessness Initiative did not have a standardized approach to measure the impacts of programs on homelessness. However, we recognize the difficulties involved in measuring homelessness and that other jurisdictions have not fully succeeded either.
- Unfunded initiatives do not require an accountability framework. However in April 2003 the Vancouver Agreement became a funded initiative. At the time of our audit, the federal participants in the agreement had not developed an accountability framework, or an adequate way to measure federal progress against the agreement's objectives.

Reporting to Parliament is weak

4.58 In our 2003 Status Report, Chapter 1, Rating Departmental Performance Reports, we noted that reporting on horizontal initiatives is challenging for the government and particularly for departments, who need to determine when their contribution to a shared outcome is significant to Parliament.

4.59 We also noted that the importance of reporting on horizontal issues was not well recognized. We recommended that the Treasury Board Secretariat encourage departments to report and that it strengthen its guidance for departmental performance reports. The Secretariat has since improved its guidance, but we found that departments are still weak in reporting on horizontal initiatives.

4.60 Without a clear understanding of who is involved and how much is spent, it is difficult for Parliament to see the overall results of an initiative. For example, the Estimates documents do not show how each federal organization contributes to the shared outcomes of the National Homelessness Initiative.

4.61 We found that Human Resources and Skills Development Canada improved its reporting on homelessness in its Estimates documents and now provides links to the Secretariat's Web site on horizontal initiatives. The government's report *Canada's Performance 2003* provided some information on the National Homelessness Initiative but did not report on results.

4.62 The Canadian Biotechnology Strategy has demonstrated progress and learning in horizontal results management with new accountability frameworks, improved performance indicators, and performance reports. For example, the Canadian Biotechnology Secretariat produced horizontal performance reports for 2002–03 and 2003–04. However, these reports are not tabled in Parliament and do not assess the overall contribution of the strategy.

4.63 Overall, the federal organizations we examined have not adequately reported on the results of the horizontal initiatives. Initiatives were not set up properly, with clear roles and responsibilities, and adequate accountability frameworks. Consequently, managers cannot demonstrate that they are learning, taking corrective action, and following up on weaknesses.

Insufficient attention by central agencies

4.64 We looked at government-wide policies and guidance and the role of central agencies in creating, co-ordinating, and overseeing horizontal initiatives. In the three initiatives—the Canadian Biotechnology Strategy, the National Homelessness Initiative, and the Vancouver Agreement—we found weaknesses in how the federal organizations involved managed horizontal initiatives. For example, they did not clearly define their roles and responsibilities. However, in our view, insufficient attention by the Privy Council Office and the Treasury Board Secretariat to horizontal initiatives is an underlying cause of such weaknesses.

Approval process for horizontal initiatives needs to be improved

4.65 The Privy Council Office and the Secretariat play key roles in the approval process for Memoranda to Cabinet and Treasury Board submissions, respectively. Memoranda focus on the policy rationale and funding for the initiative. Treasury Board submissions transform the policy rationale and objectives into the programs that will achieve those objectives. We expected that central approval processes for horizontal initiatives would ensure appropriate governance, accountability, and co-ordination. However, we did not expect the Privy Council Office or the Treasury Board Secretariat to play an ongoing central role in managing the initiatives; this is the responsibility of federal departments and agencies.

4.66 **Identifying and defining horizontal initiatives.** A 2002 federal task force on co-ordinating federal activities in the regions emphasized the importance of "getting the policy right" and tackling issues up front, such as resource requirements and harmonizing program terms and conditions. It also noted that if this was not done, it would be "extraordinarily difficult to achieve a co-ordinated approach at later stages."

4.67 Horizontal initiatives begin in response to a public policy issue or to changes in government priorities, such as those announced in the Speech from the Throne. The role of central agencies is crucial to "getting the policy right." From the start, the way a problem is defined determines the nature of the response. In this regard, the Privy Council Office has a role to play in the launching of new horizontal initiatives. We expected the Privy Council Office to ensure that horizontal initiatives were positioned effectively within government priorities, and established in such a way to ensure an integrated approach across government.

4.68 We also expected the Privy Council Office to ensure that all departments and agencies interested in an initiative were consulted and actively participated in its development, including the Treasury Board Secretariat. As part of their challenge function, the Privy Council Office and the Secretariat need to ensure that the lead department clearly identifies the purpose of the initiative. The proposed horizontal initiative should also clearly show

- the role of each minister and government institution involved,
- the broad directions for implementation (program design), and
- the funding required.

For the three initiatives we examined, the Privy Council Office informed us that the approval process generally involved consulting and actively involving departments. However, we found that the initiatives were not defined clearly at the outset—how federal organizations with relevant programs would work together.

4.69 In general, we found that the Privy Council Office and the Secretariat did not give federal organizations sufficient guidance on circumstances that require additional attention as horizontal initiatives, such as identifying specialized governance regimes for different conditions and types of horizontal initiatives.

4.70 Most of the Secretariat's guidance does not address the approval stage. It carries out insufficient oversight on the governance arrangements for horizontal initiatives, although it does maintain a database for the more significant initiatives.

Horizontal initiative—According to the Treasury Board Secretariat, it is an initiative in which partners from two or more organizations have established a formal funding agreement (e.g. Memorandum to Cabinet, Treasury Board submission, federal-provincial agreement) to work toward the achievement of shared outcomes.

4.71 **Definition of horizontal initiative is too narrow.** In many horizontal initiatives, such as the Vancouver Agreement, the issues are difficult and complex, and many federal organizations need to work together effectively to achieve desired objectives. The Secretariat's definition of a **horizontal initiative** is based on the way funds are released to several federal organizations, and not on the need for an appropriate governing framework. Therefore, the Secretariat did not view the Vancouver Agreement as a horizontal initiative because it received direct funding from one department. In our view, the way the agreement was funded and received support from federal, provincial and municipal governments did not diminish the need for guidance and support from the Secretariat.

4.72 Privy Council Office officials told us that although no one group in the Office was responsible for the Vancouver Agreement, the agreement is closely monitored and guided by the Office's Operations Secretariat and Intergovernmental Affairs. Although Western Economic Diversification Canada is responsible for such agreements in Western Canada, no one is responsible for these types of agreements nationally.

4.73 **Recommendation.** The Privy Council Office and the Treasury Board of Canada Secretariat should identify the circumstances that require special attention as horizontal initiatives and the appropriate governance regimes for different conditions and types of horizontal initiatives.

Need for a management framework

4.74 In our December 2000 Report, Chapter 20, Managing Departments for Results and Managing Horizontal Issues for Results, we observed that "the role played by the Secretariat in the management of horizontal (interdepartmental) issues is piecemeal and differs from one initiative to the next, apparently independent of the characteristics of the initiative. The Secretariat does not have a strategic approach…."

4.75 We found that Treasury Board Secretariat has since produced guidance that is relevant to horizontal initiatives. Examples include the *Companion Guide to the Development of Results-based Management Frameworks for Horizontal Initiatives* (2002) and *Managing Collaborative Arrangements: A Guide for Regional Managers* (2003).

4.76 The Secretariat informed us of a range of recent initiatives related to horizontal management of policy and programs. These include

- the Management Accountability Framework, introduced in 2003, and used since then to assess management practices across departments and agencies; and
- the Management Resources and Results Structure policy, in effect since April 2005, which, together with new program activity architectures, is intended to facilitate inter-departmental comparisons and a whole-of-government perspective.

We did not examine these initiatives as they were at an early stage or beginning to be implemented at the time of our audit; we plan to assess their progress as part of our follow up to this audit.

4.77 Although a number of the Secretariat's policies and guidance documents we examined contain references to horizontal initiatives—in our view, this is not enough. It is still a case-by-case approach that lacks a coherent, integrated body of policies and guidance, which is needed to design governance and management arrangements for horizontal initiatives.

4.78 For example, we found very limited guidance from the Secretariat on evaluating horizontal initiatives. When we examined the Canadian Biotechnology Strategy and the National Homelessness Initiative, we found no requirements for interdepartmental and horizontal evaluation that would include all federal organizations with related programs. Without such evaluations, the federal government is unable to give parliamentarians a complete picture of the results it has achieved.

4.79 **Recommendation.** The Privy Council Office and the Treasury Board Secretariat should develop frameworks that set specialized guidance and expectations on governance, accountability, co-ordination, and results-based management of horizontal initiatives for federal organizations. As part of this effort, the Treasury Board Secretariat should develop specialized guidance for evaluating horizontal initiatives.

Funding instruments need review

4.80 We expected that funding instruments would allow for and facilitate horizontal co-ordination. A government task force had identified this as an issue and recommended that

- funding arrangements be made more compatible for common client groups with respect to application, approval, and reporting; and
- existing practices, financial tools, and delegated authorities be examined with a view to harmonizing interdepartmental approaches.

4.81 Without a consistent central approach, departments involved in horizontal initiatives are left to address the issues as they arise. For example, in the National Homelessness Initiative, we found some adjustments to contribution programs to reflect the horizontal nature of the initiative. However, in the Vancouver Agreement, federal departments generally did not adjust their contribution programs or look at alternative funding arrangements. The 2004 federal study, *The Horizontal Challenge: Line Departments, Central Agencies and Leadership*, noted that

> It proved to be much more difficult than anticipated to use existing departmental program funds to support Vancouver Agreement projects. One lesson appears to be, therefore, that terms and conditions of existing programs do not easily lend themselves to the flexibility required to effectively address the complex problems of situations such as the downtown east side in Vancouver.
>
> —Canada School of Public Service

4.82 We found examples where it was difficult to bring together federal programs and community needs and address gaps in programming. For example, Human Resources and Skills Development Canada had a number of programs to support people returning to the workforce. To be eligible, a person had to have received employment insurance in the past three years. However, many homeless people in Vancouver's downtown east side have been unemployed for a long time or were never employed. Although it was difficult, Human Resources and Skills Development Canada was able to participate in the Vancouver Agreement.

4.83 Recommendations from two federal task forces (1996 and 2002) to streamline the federal approach for recipients that receive funding from more than one federal organization have not yet been addressed. For example, recipients have to prepare a report for each federal department rather than one report for the federal government. Other recommendations included

- clarifying interdepartmental roles and responsibilities for achieving collective results; and
- streamlining funding arrangements, including pooling of resources for community or regional plans or common clients.

4.84 In April 2003, when the Vancouver Agreement became a funded initiative, the federal government committed $10 million to the agreement—$5 million from Western Economic Diversification Canada, $3 million from the Urban Aboriginal Strategy, and $2 million from the Urban Aboriginal Homelessness program (see Appendix A). Ministers agreed that the urban aboriginal funding was to be counted as part of the federal government's contribution to the Vancouver Agreement. However, we found that this allocation of funding was initially unclear to some members of the Vancouver Agreement management committee. The funding was allocated through the urban aboriginal programs, with their own strategies and processes, and not directly to the Vancouver Agreement.

4.85 We found that the funding allocation from the two urban aboriginal programs was not sufficiently aligned with the Vancouver Agreement. Allocating funds from existing federal programs created misunderstandings—some community organizations thought it represented additional money, and others thought that the federal government was double counting. There was no comprehensive picture of the federal investment in the agreement.

4.86 **Recommendation.** The Treasury Board Secretariat should identify and develop guidance on allocating funding for horizontal initiatives and develop appropriate funding instruments for the horizontal delivery of federal programs.

Conclusion

4.87 Horizontal issues remain complex and challenging for governments. We examined the government-wide roles of the Privy Council Office and the Treasury Board Secretariat, and the roles of departments in three horizontal initiatives. Despite some positive examples, we found weaknesses in horizontal governance, accountability, and co-ordination. The government is doing little to find out what is working and what is not—limiting its opportunities to learn and improve.

4.88 In our view, an underlying cause of these weaknesses is that the Privy Council Office and the Treasury Board Secretariat have not given enough attention to such initiatives. Although there have been a number of improvements, these central agencies and the federal organizations involved need to further improve the accountability and management frameworks, approval processes, and funding arrangements. Much of the federal government's current approach is still on a case-by-case basis and lacks a coherent and integrated body of policies and guidance for horizontal initiatives.

Government's overall response. It is correctly pointed out in this chapter that working well horizontally, both internally and with other levels of government, is increasingly important for delivering quality service to Canadians. More and more, this way of working is becoming the order of the day. Indeed, at a basic level, there are very few government initiatives that are not horizontal to some degree.

The government will respect the spirit of the Auditor General's recommendations and is committed to continuing to improve the tools available to help public servants deliver successful horizontal initiatives. The Treasury Board Secretariat (TBS) and the Privy Council Office (PCO) will ensure that this is done in a way that is sensitive to the need for continued flexibility in design of particular initiatives and that builds on our experiences over time.

Managing horizontal initiatives is very challenging, particularly in an organization as big and as complex as the Government of Canada. The government is taking action to meet the challenge; the work will require ongoing adjustment and improvement to get it right.

The fundamental principles of ministerial responsibility need to be respected while bringing together federal departments and agencies—all with their own accountabilities, parliamentary appropriations, and legal responsibilities—in pursuit of common objectives and strategies.

The allocation and re-allocation of resources, and performance measurement and assessment, for example, need to be managed horizontally while respecting individual ministers' responsibilities and accountabilities.

In respect of horizontal initiatives, and indeed of all key new initiatives, a valid central agency function is to play a facilitating role in their launch. This ensures that such initiatives are positioned effectively within government priorities and are established in such a way as to ensure that an integrated approach is developed. On the three specific horizontal initiatives under audit, PCO and TBS ensured that appropriate departments were involved in the Cabinet and Treasury Board processes, that horizontal governance structures were put in place, and that departmental leadership and roles were identified.

Central agencies must respect the leadership and accountability of departments to implement the initiative in a way that is consistent with their areas of responsibility and that respects Treasury Board management policies. As acknowledged by the Auditor General, it is the responsibility of federal departments and agencies to have the central and ongoing role in managing the initiatives, not PCO or TBS.

Implementing the chapter's recommendations entails, in large measure, a transformation in the way government works, and will require fundamental changes in government information structures and systems. The government is moving forward systematically to achieve this transformation. For example, through the Management Resources and Results Structure and the Management Accountability Framework, it has initiated changes in its information structures and systems to improve the identification of horizontal issues, improve information on what is spent on them, better define outcomes, and improve reporting to Parliament. In addition, and as noted in the chapter, progress has been made in providing guidance on horizontal management of policy and programs.

At the sectoral level, where guidance is put into practice, the government has been moving forward strategically—reflecting in part resource constraints, and in part the need to learn and refine approaches and apply them more broadly based on lessons learned. Central agencies and departments are working through governance issues and putting in place structures believed appropriate to address specific initiatives. We are learning what works and what does not work. For example, the government has changed the governance structure around the climate change initiative with one that we believe will be more effective, and Budget 2005 launched an evaluation of all climate change programs with a view to ensuring the government is making the best investments. We recognize that the nature of horizontal issues means that they require continual attention and ongoing improvement.

About the Audit

Objectives

The objectives of this audit were to do the following:

- Determine, in selected horizontal initiatives, the extent to which the federal organizations provide for governance, accountability, and co-ordination; the extent to which the federal organizations involved are learning by using the performance information involved; and the adequacy of the role of the central agencies involved.
- Assess the leadership, guidance, and support provided by the Treasury Board of Canada Secretariat. This also involved the Privy Council Office.

Scope and approach

We focussed on co-ordination, including its impact on results. However, we did not examine whether the intended results were achieved. We also focussed on government authorities and commitments for horizontal initiatives, including the role played by central agencies. The key themes for the audit included governance arrangements, implementation, learning and transition, reporting, and the role of central agencies. The audit examined the federal government's co-ordination efforts, including the relationships between lead and participating departments.

We looked at three case studies: The Canadian Biotechnology Strategy (CBS), the National Homelessness Initiative (NHI), and the Vancouver Agreement (VA). We visited officials in Toronto (NHI), Edmonton (NHI), and Vancouver (NHI/VA). These cases were selected using the criterion of maturity, that is, the initiatives were established early enough to identify periods of transition and learning. Other criteria were materiality—either financial or a potential model as in the case of the VA—the number of partners (horizontality), and auditability.

Our audit process included interviews with lead departments, other participating federal departments, central agencies, federal regional councils, key stakeholders (provincial and municipal), and a selection of ultimate recipients of federal funds. It also included extensive review and analysis of the following documents and practices:

- authorities, strategies, public documents, policies, Estimates documents, guidance material, annual reports;
- minutes from management and committee meetings (regional and headquarters); and
- selected project files from regional offices for the NHI and the VA.

Our audit was limited to federal programs and efforts and did not include complementary programs or participation of other levels of government.

Criteria

The criteria for this audit were developed based on the Office's Accountability Audit Guide and previous Office reports including the Auditor General's December 2000 Report, Chapter 20, Managing Departments for Results and Managing Horizontal Issues for Results; and the Commissioner's 2000 Report, Chapter 6, Working Together in the Federal Government and Chapter 7, Co-operation between Federal, Provincial and Territorial Governments.

Our audit was based on the following criteria.

We expected

- co-ordination mechanisms that contribute to expected results;
- defined roles and responsibilities for each organization;
- clear reporting requirements and practices;
- provisions for monitoring, performance measures, evaluation, review, and adjustment;
- clear and timely funding allocations;
- terms and conditions in program design to allow for horizontal collaboration;
- results-based performance reporting;
- adjustments and improvements to the management of the horizontal initiative based on performance or other evidence; and
- organizations learn from each other, and improve collective performance.

We expected that the Privy Council Office

- ensure appropriate consultation within the federal government for Memorandum to Cabinet that establishes the horizontal initiative;
- ensure that the initiative is the most effective and efficient design from a machinery of government perspective; and
- where appropriate, co-ordinate policy development for horizontal initiatives.

We expected that the Treasury Board of Canada Secretariat

- ensure provisions for governance, management, and accountability in the TB Submission process;
- provide clear policies, guidance, tools, and support for horizontal initiatives that reflect best practices;
- respond to TBS policy barriers to collaboration or co-ordination identified by lead agencies and others;
- ensure that requirements for accountability and reporting to Parliament for horizontal initiatives are developed and communicated to departments and agencies; and
- provide ongoing support for the evolution and improvement for the management of horizontal initiatives.

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Appendix A Program descriptions

Program	Purpose
Canadian Biotechnology Strategy	
Canadian Biotechnology Strategy Fund	Support departments and agencies in exploring new and cross-government opportunities and challenges, conduct policy research, and ensure that federal decisions are based on expert advice and knowledge.
Canadian Regulatory System for Biotechnology	Develop the regulatory system's capacity, public awareness and confidence, efficiency, effectiveness and timeliness; develop approaches to emerging areas; and generate knowledge to assess risks of new biotechnology products.
Genomics Research and Development	Build biotechnology research capacity of government laboratories to strengthen the regulatory system and to bring the benefits of advances to Canadian industry, such as new methods of managing agriculture and aquaculture; enhancing conservation; and disease diagnosis, treatment, and prevention.
National Homelessness Initiative	
Human Resources and Skills Development Canada	
Supporting Communities Partnership Initiative	Provide financial support and encouragement to communities to work with governments and the private and voluntary sectors to make more services and facilities available to people moving from homelessness to self-sufficiency.
Supporting Communities Partnership Initiative—Youth	Address homelessness among youth in collaboration with the Youth Employment Initiatives—Phase 1 only, rolled into the Supporting Communities Partnership Initiative for Phase 2.
Regional Homelessness Fund	Support local efforts of small and rural communities dealing with homelessness.
National Research Program	Increase understanding of the magnitude, characteristics, and causes of homelessness in Canada.
Urban Aboriginal Homelessness program	Support integrated community planning and projects in 12 cities to improve the well-being of urban Aboriginal people and reduce the disparity between Aboriginal and non-Aboriginal people.
Homeless Individuals and Families Information System	Provide service providers and communities with an electronic data management system that enables them to share information, develop partnerships, and transform management practices within the shelter system. The network of data sharing communities will contribute to the development of a national database. The long term goal is to better understand the size and scope of the shelter homeless population.

Program	Purpose
National Homelessness Initiative (continued)	
Public Works and Government Services Canada	
Surplus Federal Real Property for Homelessness Initiative	Provide surplus federal properties, for a nominal cost, to help communities across Canada overcome the high-capital costs of buying land or buildings to help alleviate and prevent homelessness. Public Works and Government Services Canada, Human Resources and Skills Development Canada, and the Canada Mortgage and Housing Corporation act as partners at the national and regional levels in implementing and managing this initiative.
Canada Mortgage and Housing Corporation	
Residential Rehabilitation Assistance Program	Provide financial aid to bring the housing of low-income Canadians up to basic health and safety standards, modify housing for accessibility for persons with disabilities, and convert non-residential properties into affordable rental accommodations.
Shelter Enhancement Program	Fund building or repair of shelters for women, children, and youths fleeing domestic abuse, and find housing for people making the transition to independent living.
Vancouver Agreement	
Western Economic Diversification Canada	
Western Diversification Program	Foster increased economic activity and improve the quality of life in communities of Western Canada by funding activities that create economic benefits and jobs.
Urban Aboriginal Strategy	Address the serious socio-economic needs of urban Aboriginal people, in partnership with stakeholders; improve policy development and program co-ordination at the federal level and with other levels of government.

Program	Purpose
Health Canada*	
Canada's Drug Strategy	Address drug and alcohol abuse and the related health, social, and economic costs.
The Women's Health Strategy	Increase the health system's sensitivity to women's health issues and focus on the links to social and economic circumstances.
Public Health Agency of Canada*	
Community Action Program for Children	Improve the health and development of children (0-6 years) living in conditions of risk and their families by helping communities develop prevention and early intervention programs using partnerships, community capacity building, and other health promotion strategies.
Canadian Strategy on HIV/AIDS	Provide operating funds for national and community AIDS organizations. These funds support community organizations that work with settlement organizations, housing services, youth services, needle exchange programs, addiction services, social and cultural organizations, mental health services, food banks, employment and vocational programs, police, HIV testing services, health and sexually transmitted disease clinics, and schools.
Hepatitis C program	Help prevent hepatitis C infection through research into prevention, treatment, and cure and increasing public awareness.
Health Canada and Public Health Agency of Canada (jointly administered)*	
Aboriginal Head Start	Prepare pre-school First Nations children for their school years by meeting their emotional, social, health, nutritional, and psychological needs. Projects include the following components: culture and language, education, health promotion, nutrition, social support, and parental involvement. The urban and northern communities part of the program, delivered by the Public Health Agency of Canada, is relevant to the National Homelessness Initiative and the Vancouver Agreement.
Canada Prenatal Nutrition program	Fund community programs for vulnerable pregnant women to reduce the incidence of unhealthy birth weights, improve the health of infant and mother, and encourage breastfeeding.
Fetal Alcohol Spectrum Disorder Initiative	Reduce the number of Fetal Alcohol Spectrum Disorder births and improve the quality of life for those affected, through education and training, and targeted intervention; support families of affected children; and provide early identification, assessment, and diagnosis.

*Programs relevant to National Homelessness Initiative. Some of these programs may also be relevant to the Vancouver Agreement.

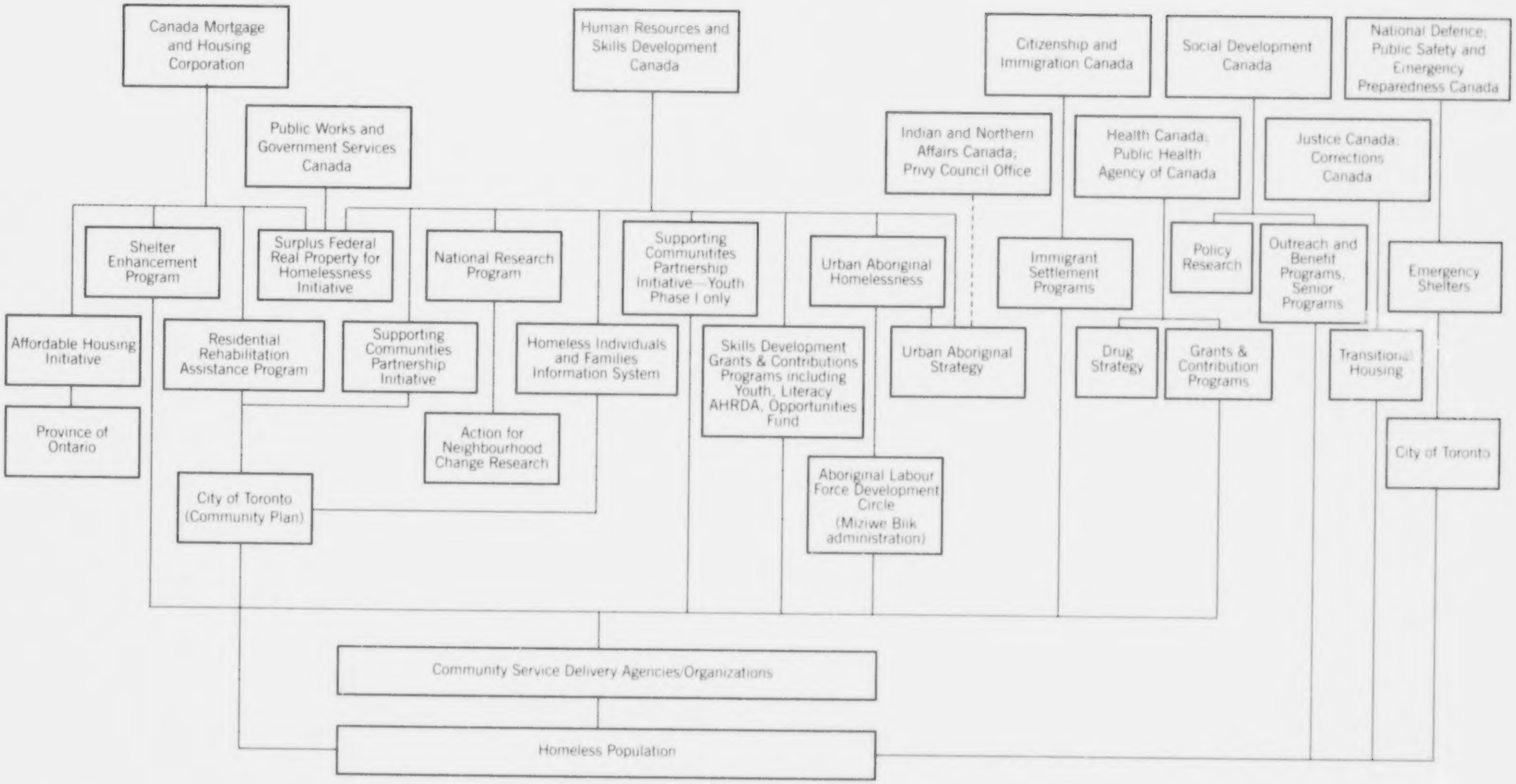
Appendix B National Homelessness Initiative funding

Federal organization	Phase 1 (1999–2003)	Phase 2 (2003–06)
Human Resources and Skills Development Canada (HRSDC)	Supporting Communities Partnership Initiative, new program ($305 million)	($258 million)
	Youth Employment Strategy for youth at risk and homeless youth ($59 million enhancement)	This program became part of the Supporting Communities Partnership Initiative
	Urban Aboriginal Strategy (previously in Privy Council Office, now in Indian and Northern Affairs Canada), administered by HRSDC ($59 million enhancement)	The Urban Aboriginal Homelessness ($45 million)
	—	The Regional Homelessness Fund, new program ($13 million)
	—	Homeless Individuals and Families Information System transferred from the Canada Mortgage and Housing Corporation ($6 million)
	Other planning and research, new program ($9 million)	National Research Program, new program ($7 million)
Public Works and Government Services Canada	Surplus Federal Real Property for Homelessness Initiative, new program ($10 million)	Surplus Federal Real Property for Homelessness Initiative ($9 million)
Canada Mortgage and Housing Corporation	Residential Rehabilitation Assistance Program, existing program ($268 million)	No longer part of the National Homelessness Initiative[1]
	Shelter Enhancement Program, existing program ($43 million)	
Total	**$753 million**	**$405 million**[2]

[1] The Canada Mortgage and Housing Corporation, 2003-04 to 2005-06, received $384 million. It is not formally associated with the NHI but received funding concurrent with NHI funding for Phase 2, Residential Rehabilitation Assistance Program, Shelter Enhancement Program, and other programs.

[2] This amount includes $67 million in operating funds.

Appendix C Programs affecting homelessness in Toronto


Canada Mortgage and Housing Corporation
Human Resources and Skills Development Canada
Citizenship and Immigration Canada
Social Development Canada
National Defence; Public Safety and Emergency Preparedness Canada
Public Works and Government Services Canada
Indian and Northern Affairs Canada; Privy Council Office
Health Canada; Public Health Agency of Canada
Justice Canada; Corrections Canada
Shelter Enhancement Program
Surplus Federal Real Property for Homelessness Initiative
National Research Program
Supporting Communitites Partnership Initiative—Youth Phase I only
Urban Aboriginal Homelessness
Immigrant Settlement Programs
Policy Research
Outreach and Benefit Programs, Senior Programs
Emergency Shelters
Affordable Housing Initiative
Residential Rehabilitation Assistance Program
Supporting Communities Partnership Initiative
Homeless Individuals and Families Information System
Skills Development Grants & Contributions Programs including Youth, Literacy AHRDA, Opportunities Fund
Urban Aboriginal Strategy
Drug Strategy
Grants & Contribution Programs
Transitional Housing
Province of Ontario
Action for Neighbourhood Change Research
Aboriginal Labour Force Development Circle (Miziwe Biik administration)
City of Toronto
City of Toronto (Community Plan)
Community Service Delivery Agencies/Organizations
Homeless Population

Source: National Secretariat on Homelessness

Appendix D List of recommendations

The following is a list of recommendations found in Chapter 4. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendations	Government's overall response
Insufficient attention by central agencies	
4.73 The Privy Council Office and the Treasury Board of Canada Secretariat should identify the circumstances that require special attention as horizontal initiatives and the appropriate governance regimes for different conditions and types of horizontal initiatives. **(4.65–4.72)**	It is correctly pointed out in this chapter that working well horizontally, both internally and with other levels of government, is increasingly important for delivering quality service to Canadians. More and more, this way of working is becoming the order of the day. Indeed, at a basic level, there are very few government initiatives that are not horizontal to some degree. The government will respect the spirit of the Auditor General's recommendations and is committed to continuing to improve the tools available to help public servants deliver successful horizontal initiatives. The Treasury Board Secretariat (TBS) and the Privy Council Office (PCO) will ensure that this is done in a way that is sensitive to the need for continued flexibility in design of particular initiatives and that builds on our experiences over time. Managing horizontal initiatives is very challenging, particularly in an organization as big and as complex as the Government of Canada. The government is taking action to meet the challenge; the work will require ongoing adjustment and improvement to get it right. The fundamental principles of ministerial responsibility need to be respected while bringing together federal departments and agencies—all with their own accountabilities, parliamentary appropriations, and legal responsibilities—in pursuit of common objectives and strategies. The allocation and re-allocation of resources, and performance measurement and assessment, for example, need to be managed horizontally while respecting individual ministers' responsibilities and accountabilities.
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4.86 The Treasury Board Secretariat should identify and develop guidance on allocating funding for horizontal initiatives and develop appropriate funding instruments for the horizontal delivery of federal programs. **(4.80–4.85)**	

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4.86 The Treasury Board Secretariat should identify and develop guidance on allocating funding for horizontal initiatives and develop appropriate funding instruments for the horizontal delivery of federal programs. **(4.80–4.85)**	

Government's overall response

In respect of horizontal initiatives, and indeed of all key new initiatives, a valid central agency function is to play a facilitating role in their launch. This ensures that such initiatives are positioned effectively within government priorities and are established in such a way as to ensure that an integrated approach is developed. On the three specific horizontal initiatives under audit, PCO and TBS ensured that appropriate departments were involved in the Cabinet and Treasury Board processes, that horizontal governance structures were put in place, and that departmental leadership and roles were identified.

Central agencies must respect the leadership and accountability of departments to implement the initiative in a way that is consistent with their areas of responsibility and that respects Treasury Board management policies. As acknowledged by the Auditor General, it is the responsibility of federal departments and agencies to have the central and ongoing role in managing the initiatives, not PCO or TBS.

Implementing the chapter's recommendations entails, in large measure, a transformation in the way government works, and will require fundamental changes in government information structures and systems. The government is moving forward systematically to achieve this transformation. For example, through the Management Resources and Results Structure and the Management Accountability Framework, it has initiated changes in its information structures and systems to improve the identification of horizontal issues, improve information on what is spent on them, better define outcomes, and improve reporting to Parliament. In addition, and as noted in the chapter, progress has been made in providing guidance on horizontal management of policy and programs.

At the sectoral level, where guidance is put into practice, the government has been moving forward strategically—reflecting in part resource constraints, and in part the need to learn and refine approaches and apply them more broadly based on lessons learned. Central agencies and departments are working through governance issues and putting in place structures believed appropriate to address specific initiatives. We are learning what works and what does not work. For example, the government has changed the governance structure around the climate change initiative with one that we believe will be more effective, and Budget 2005 launched an evaluation of all climate change programs with a view to ensuring the government is making the best investments. We recognize that the nature of horizontal issues means that they require continual attention and ongoing improvement.

Report of the Auditor General of Canada to the House of Commons—November 2005

Main Table of Contents

Matters of Special Importance—2005
Main Points—Chapters 1 to 8

Chapter 1 Royal Canadian Mounted Police—Contract Policing

Chapter 2 The Quality and Reporting of Surveys

Chapter 3 Canada Revenue Agency—Verifying Income Tax Returns of Individuals and Trusts

Chapter 4 Managing Horizontal Initiatives

Chapter 5 Support to Cultural Industries

Chapter 6 Elections Canada—Administering the Federal Electoral Process

Chapter 7 Indian and Northern Affairs Canada—Meeting Treaty Land Entitlement Obligations

Chapter 8 Other Audit Observations

Appendices

2005

NOVEMBER

Errata

The following are corrections for errors in wording for Chapter 5.

P. 2, line 7 of the first indented bullet, should read: Further, the **composition of** the CTF Board is a potential source of conflict of interest, and its conflict-of-interest guidelines are not applied rigorously.

P. 26, paragraph 5.72, second bullet, should read: **An analysis of the information provided by producers.**

Pp. 28 and 52, paragraph 5.80, first bullet, should read: **document its business procedures and business risks, establish controls to mitigate those risks, and implement a quality control process;**

The French version of Chapter 5 is correct as printed. We have corrected all Web versions of Chapter 5.

Office of the Auditor General of Canada

2005

Report of the
Auditor General of Canada
to the House of Commons

NOVEMBER

Chapter 5
Support to Cultural Industries

Office of the Auditor General of Canada

The November 2005 Report of the Auditor General of Canada comprises Matters of Special Importance—2005, Main Points—Chapters 1 to 8, eight chapters, and appendices. The main table of contents is found at the end of this publication.

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Chapter

5

Support to Cultural Industries

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Table of Contents

Main Points 1

Introduction 5

Cultural industries play an important role in promoting Canadian cultural content 5
Several federal organizations support Canadian cultural content 5
Focus of the audit 8

Observations and Recommendations 9

Strategic management 9

Sustained, coherent efforts will be required to strategically manage support to cultural industries 10
Horizontal management needed 11
Some departmental management mechanisms need strengthening 13

Governance framework 15

Governance arrangements with other organizations could be better defined 15
The governance of the Canadian Television Fund is complex 16
Administering the Canadian Television Fund program remains cumbersome 19
Concerns about Telefilm Canada's autonomy and implementing its new mandate 22

Application of controls 25

A control framework appropriate to the nature of operations in the audiovisual sector 26
Application of controls is not sufficiently rigorous 27
Overall efficiency of controls can be increased 36

Measuring and reporting results 39

Tools to measure results and progress are inadequate 39
The departmental performance report needs improvement 41

Conclusion 43

About the Audit 45

Appendices

A. Financing structure of the Canadian Television Fund program, 2004–05 48
B. List of recommendations 49

Support to Cultural Industries

Main Points

What we examined

Canadian Heritage supports the cultural industries of film, television, publishing, sound recording, and new media to encourage them to create, produce, and disseminate Canadian cultural content. Its assistance includes such measures as grants and contributions as well as rules governing copyright and Canadian ownership of cultural enterprises. The government also supports the audiovisual industry through tax credits.

We examined the Department's strategic direction, governance, control, results measurement, and accountability reporting mechanisms for managing its support to cultural industries. We also examined how the Department and organizations that support cultural industries ensure that feature film and television producers who receive financial assistance have satisfied Canadian content requirements and eligibility rules for expenses.

Why it's important

Canadian Heritage and other organizations such as Telefilm Canada, the Canadian Television Fund Corporation, and the Canada Revenue Agency provide more than $800 million yearly to cultural industries in the form of investments, grants, contributions, and tax credits. This support for the creation and production of Canadian content is aimed at helping to develop Canadians' sense of belonging and building the country's national identity.

Cultural industries employ about 600,000 people in Canada each year, according to Statistics Canada—among them writers, musicians, publishers, actors, producers, and technical specialists. By supporting these industries, Canadian Heritage helps them face foreign competition and contributes to the cultural and economic vitality of Canada.

What we found

- Canadian Heritage recently developed its first strategic plan in its Cultural Affairs Sector. However, the Department has not yet defined clearly enough an overall vision of the results it wants to attain over the coming years with its support to cultural industries. In the absence of a more clearly defined strategy for the entire cultural sector, each of the branches in its Cultural Affairs Sector risks developing its own plans, priorities, and production schedules independently for the industry it supports. Within the Sector, there are few horizontal management mechanisms through which the branches share experience, knowledge, and best practices. For the most part, the Department has not established targets by which to measure its performance and so is unable to give Parliament a clear picture of what it wants to achieve, what it has achieved, and the progress made through the financial support it has provided to cultural industries.

- Canadian Heritage has considerable influence over the governance of the Canadian Television Fund and Telefilm Canada through its contribution agreements with these two organizations.
    - Despite several efforts made to improve the situation, the governance of the Canadian Television Fund remains complex. It requires the involvement of two boards of directors in decision making: the Board of the Canadian Television Fund (CTF) and the Board of Telefilm Canada. CTF program objectives are broad and lack precision. They do not provide the Board of Directors with specific direction for making strategic decisions. Further, the CTF Board is a potential source of conflict of interest, and its conflict-of-interest guidelines are not applied rigorously. Current arrangements make the administration of the CTF program cumbersome—for example, a producer receiving assistance from both components of the CTF program must sign separate contracts with the two corporations.
    - Under its current contribution agreements with Canadian Heritage, Telefilm Canada has little leeway to interpret its mandate and determine the best way of carrying it out. This degree of government oversight is unique among Crown corporations. Furthermore, a proposal to modify the governance structure of the Canadian Television Fund may significantly limit both Telefilm Canada's role in the development of the television industry and its ability to account to Parliament on this aspect of its expanded mandate.
- Canadian Heritage, Telefilm Canada, the Canadian Television Fund Corporation, and the Canada Revenue Agency have put in place a control framework appropriate to the nature of operations in the audiovisual sector. However, Canadian Heritage and Telefilm Canada do not apply their controls rigorously enough to ensure that Canadian content requirements are met, projects are selected in accordance with criteria, and only eligible expenses are reimbursed. The CRA does not apply its controls rigorously enough to ensure that tax credits are paid only for eligible expenses. Weaknesses in the

sharing of information among all the organizations involved, including the Canadian Radio-television and Telecommunications Commission, also limit the effectiveness of controls.

The organizations have responded. Canadian Heritage, the Canadian Television Fund, the Canada Revenue Agency, Telefilm Canada, and the Canadian Radio-television and Telecommunications Commission have accepted our recommendations. Their detailed response follows each recommendation in the chapter.

Introduction

Cultural industries play an important role in promoting Canadian cultural content

5.1 For decades, the federal government has supported the cultural sector through several cultural institutions, laws and regulations, and various programs. The Government of Canada believes that cultural goods and services help to develop Canadians' sense of belonging and build the country's national identity. The government's supports are also intended to foster the development of Canadian cultural enterprises within a limited market dominated by multinational firms.

5.2 Cultural industries of film, television, publishing, new media, and sound recording play a important role in the creation, production, and distribution of Canadian cultural works and productions. They are able to mobilize creators (writers, artists, composers, screenwriters, and directors), publishers, producers, and distributors to provide Canadians with their own cultural goods and services.

5.3 Canadian Heritage supports cultural industries in order to encourage them to create, produce, and disseminate Canadian cultural products. This support takes different forms: contributions to film and television producers, editors, and music producers; rules about Canadian ownership of cultural enterprises; and legislative provisions about copyright. In addition, the government provides financial assistance to the audiovisual industry through two tax credit programs: one for Canadian audiovisual productions, and one for film or video production services that are provided in Canada but do not have sufficient Canadian content to qualify for the Canadian film or video production tax credit. In order to put its support measures in place, the Department relies on various organizations. Exhibit 5.1 provides a list of the key financial support linked to the Department's programs for 2004–05 and the organizations responsible for administering them.

Several federal organizations support Canadian cultural content

5.4 Developing policies and programs to support cultural industries must take into account the actions of all federal organizations that encourage the creation, production, and distribution of Canadian cultural goods (Exhibit 5.2). For example, the Canadian Radio-television and Telecommunications Commission (CRTC) helps create demand for Canadian content by

- requiring public and private broadcasters to broadcast Canadian programs during prime time,
- licensing 49 digital specialty television channels,

- requiring cable and satellite distribution companies to contribute to funding the production of Canadian programs, and
- providing incentives for the production of English-language television dramas.

Exhibit 5.1 Financial support for Canadian Heritage programs and organizations involved in program delivery, 2004–05

Cultural sectors	Financial support for programs	Financial resources[1] (in thousands)	Organizations involved in program delivery[2]
Film, video, and television	New Policy Directions for Canadian Feature Film		Telefilm Canada, Canada Council for the Arts, Library and Archives Canada, AV Preservation Trust, Canadian Independent Film, and Video Fund
	• Canada Feature Film Fund	$84,355	
	• Support to Policy	$1,550	
	• National Training Program in the Film and Video Sector	$2,550	
	Canadian Television Fund Program		
	• Equity Investment Program	$114,000	Telefilm Canada
	• Licence Fee Program	$161,000[3]	Canadian Television Fund
	Canadian Film or Video Production Tax Credit	$196,000	Co-administered by the Canadian Audio-Visual Certification Office and the Canada Revenue Agency
	Film or Video Production Services Tax Credit	$106,000	Co-administered by the Canadian Audio-Visual Certification Office and the Canada Revenue Agency
Publishing	Book Publishing Industry Development Program	$38,743	Canadian Heritage, Association for the Export of Canadian Books
	Publications Assistance Program	$49,400	Canada Post Corporation
	Canada Magazine Fund	$21,000	Canadian Heritage
New media	Canadian Culture Online	$7,500[4]	Canadian Heritage
	Electronic Copyright Fund	$1,500	
	Applied Research in Interactive Media Program	$1,000	CANARIE
	Canada New Media Fund	$8,150	Telefilm Canada
Sound recording	Canada Music Fund	$24,354	FACTOR, Musicaction, AV Preservation Trust, Library and Archives Canada, SOCAN Foundation, Telefilm Canada, and Canada Council for the Arts
Total		**$817,102**	

[1] Estimates, 2004–05, Parts I and II, and Supplementary Estimates A and B; Canada Revenue Agency; Canadian Television Fund

[2] The majority of the organizations deliver programs through memoranda of understanding and contribution agreements with Canadian Heritage

[3] Includes $125 million in contributions from the cable and satellite distribution industry

[4] Includes about $5 million in contributions to not-for-profit community organizations to provide access to Canadian cultural content on the Internet

The Canadian Broadcasting Corporation (CBC) and the National Film Board also influence production and distribution of Canadian content through their television programs, documentaries, and animated films. As well, Foreign Affairs Canada promotes Canadian artists abroad.

Exhibit 5.2 Roles and responsibilities of the federal organizations that support Canadian cultural content

Organization	Roles and responsibilities
Canadian Heritage, including the Canadian Audio-Visual Certification Office	Develop and evaluate policies to support cultural industries and implement programs. Administer the Canadian Film or Video Production Tax Credit and the Film or Video Production Services Tax Credit, in conjunction with the Canada Revenue Agency. Certify that a production is Canadian.
Canadian Radio-television and Telecommunications Commission	Regulate and supervise the broadcasting and telecommunications industries. Ensure availability of Canadian content and programming that reflects Canadian creative talent; Canada's linguistic duality; cultural diversity; social values; and national, regional, and local characteristics.
Telefilm Canada	Develop and promote the film and audiovisual industry by offering financial and strategic support for the production of high-quality works, such as feature films, documentaries, television dramas, children's programs, and new media. Administer the Equity Investment Program in feature film and television.
National Film Board	Produce and distribute distinctive and challenging audiovisual works that reflect cultural diversity and provide Canada and the world with an authentic Canadian perspective.
Canadian Broadcasting Corporation	As a Crown corporation, offer a wide range of Canadian radio and television programming that informs, enlightens, and entertains in both official languages.
Canada Post	Ensure the distribution of Canadian magazines in Canada.
Canadian Television Fund Corporation*	Oversee the policies, objectives, and guidelines of the CTF program. Support the production and broadcast of quality television programs, with distinctively Canadian content. Administer the Licence Fee Program.
Canada Revenue Agency	Administer the Canadian Film or Video Production Tax Credit and the Film or Video Production Services Tax Credit, with the Canadian Audio-Visual Certification Office. Process applications for the two tax credit programs.
Canada Council for the Arts	Foster and promote the study, enjoyment, and production of works in the arts.
National Arts Centre	Develop the performing arts in the National Capital Region, and assist the Canada Council for the Arts develop the performing arts elsewhere in Canada.
Foreign Affairs Canada	Promote Canadian values and culture abroad, through various programs.

* The Canadian Television Fund Corporation is a private corporation, not a federal organization.

5.5 According to Statistics Canada, the federal government spent about $2.2 billion in 2002–03 to support cultural industries, including $1.6 billion for broadcasting and television. This figure would include the CBC's $1 billion parliamentary appropriation in 2002–03. It does not include tax credits for audiovisual producers or contributions from the cable and satellite distribution industries (around $400 million).

5.6 Some provincial governments, most notably Quebec, Ontario, and British Columbia, also support cultural industries through tax credits, grants, and contributions. Statistics Canada reports that cultural industries employ around 600,000 people in Canada.

5.7 Each cultural industry has particular characteristics (size, growth, profitability), faces unique challenges, requires different supports, and is at a different stage of maturity. Canadian Heritage must take these needs and characteristics into account when considering the type and level of support to provide. For example, the new media industry is in its infancy, requiring different support than the publishing industry, which is centuries old.

5.8 Technological progress greatly affects the development of cultural industries and raises the issue of common interests. Several businesses that specialized in television or film in the past now work in both sectors. Programmers and graphic artists used to design educational video games; now programmers, graphic artists, composers and producers are needed to create them. In the field of sound recording, production and distribution methods for CDs have changed dramatically over the past few years. The Internet has become a prime distribution method, in addition to retail stores.

5.9 Other challenges, such as cultural diversity, social cohesion, and international trade, apply continual pressure on the Department, which must constantly adapt its policies and programs as a result. Over the last few years, Canada and a number of other countries, under the direction of UNESCO, have been developing an international convention to protect cultural diversity. This convention would enable signatory countries to establish and maintain cultural policies, including those designed to support national cultural industries, without fear of provoking trade challenges.

Focus of the audit

5.10 We examined the extent to which Canadian Heritage has put in place appropriate strategic direction, governance, control, results measurement, and accountability reporting mechanisms to manage its support for film, television, publishing, new media, and sound recording industries. We also examined the controls that Canadian Heritage and other organizations that support cultural industries have established to ensure that the funds they provide to feature film and television producers satisfy Canadian content requirements and expenses' eligibility criteria.

5.11 Chapter 4 of this Report, Managing Horizontal Initiatives discusses the necessity to put effective governance mechanisms in place and outlines the role of central agencies in managing horizontal initiatives.

5.12 More details about the audit's objectives, scope, approach, and criteria are included at the end of the chapter, in **About the Audit**.

Observations and Recommendations

Strategic management

5.13 Over the past five years, Canadian Heritage has revised several policies and programs that support cultural industries. The Department launched a new policy, From Script to Screen, in October 2000. One of its goals is to increase audiences for Canadian films to five percent of the Canadian market share, from its original 2.3 percent, over a five-year period. In the area of television, the Department renewed its financial commitment to the Canadian Television Fund program. Under the Tomorrow Starts Today initiative, the federal government expanded the scope of its support programs for the publishing, periodicals, and sound recording industries, targeting intervention measures more closely. Finally, the Department implemented an initiative called Canadian Culture Online, which supports the digital production and Internet availability of Canadian cultural content in both official languages. During this same period, Canadian Heritage supported the work of Parliament's Standing Committee on Canadian Heritage in the areas of publishing, copyright, and broadcasting.

5.14 In the coming years, the Department must recommend to the government whether or not to renew several industry support programs. It will also have to implement measures the government proposed in response to the Standing Committee on Canadian Heritage's June 2003 report, Our Cultural Sovereignty, the second century of Canadian broadcasting. The Department must also develop a new audiovisual policy.

5.15 Given the complexity of developing policies and programs that support cultural industries and respond to the demands of the public, legislators, and the industry itself, and limited departmental resources, we expected the Department to have adopted a strategic direction to guide the way it manages cultural supports. We also expected the Department to have established priorities and drafted action plans.

5.16 We examined the Department's plans and the co-ordination mechanisms at its disposal to support cultural industries. Through case studies, we also examined the way the Department dealt with issues involving consultation, distribution, technology, and data gathering. We chose these issues because they represent common challenges to the Department's ability to support cultural industries.

Sustained, coherent efforts will be required to strategically manage support to cultural industries

5.17 Within the Department, the Cultural Affairs Sector delivers policies and programs that support cultural industries. Seven branches share responsibility for developing and monitoring policies and programs in the areas of film, video and sound recording, television and broadcasting, publishing, new media, copyright, foreign investments, and the arts. An eighth branch is responsible for strategic planning and co-ordination of the sector.

5.18 Since November 2004, Canadian Heritage's Cultural Affairs Sector has been working to equip itself with the management framework necessary to develop a strategic plan and adopt a strategic approach to work. The sector has strengthened its planning and co-ordination ability. It has developed the first sectoral strategic plan linked to its new Program Activity Architecture (PAA). The PAA links an organization's strategic outcomes to its activities organizational structure. The Department is currently working on a research strategy. These initiatives testify to the sector's commitment and desire to improve its management practices.

5.19 However, the sector needs to take additional steps before it can achieve a true strategic management culture and a real change in sectoral operations. It needs to develop a global vision and adopt a strategic plan that outlines the way its priorities and strategies will enable it to reach its objectives. The sector also needs to establish performance indicators. The current strategic plan includes four priorities, but has 45 activities or projects, called "strategies," designed to attain them. In addition, the plan lists another set of more than 50 strategies linked to other activities, such as human resources management, finance, and technology. The Department needs to clarify the first 45 strategies related to the priorities, since they say little about expected results, required resources, and timetables. For example, the documents we consulted provided few details about how the Department plans to implement a new audiovisual policy for the 21st century. The Department has not defined the research it needs to do or the consultations it must hold, nor has it set target dates.

Horizontal management needed

5.20 The absence of a global vision for the Cultural Affairs Sector affects the way it responds to issues common to each cultural industry. Developing or strengthening horizontal management mechanisms could help the sector work in a more strategic way. Exhibit 5.3 lists issues that are common to all cultural industries. The Cultural Affairs Sector and the Department could deal with these issues horizontally.

5.21 Although all branches pay attention to these important issues, we found that the Cultural Affairs Sector did not have horizontal management procedures that would allow branches to combine resources and share lessons learned from managing specific files. Although each branch carried out the same policy development and program management tasks, it dealt with issues and challenges of common concern in its own way. Instead of working together, each branch independently developed plans, set priorities, and established information and consultation needs. This approach allowed each branch to specialize in its respective field, to understand industry issues, and to adopt appropriate measures. But it does not favour horizontal management of common issues. Our analysis of consultation and data gathering activities revealed gaps in this area.

Exhibit 5.3 Common issues affecting cultural industries that could be dealt with horizontally

Issues	Challenges to address
Distribution of cultural products	Examine what happens to cultural products once they have been produced.
New technologies	Promote the transition to digital technology, which enables creators to communicate and interact directly with their audiences.
Delivery mechanisms	Establish a decision framework to evaluate the best method of delivering services.
Consultation	Establish a management and decision-making framework.
Strategic information	Define a strategy and priorities to obtain the information necessary to develop policies.
Development of performance indicator	Define performance indicators for the short, medium, and long term.

5.22 **Consultation activities.** The Cultural Affairs Sector makes consultation a priority, as this activity is essential to policy and program development. However, it does not apply a management framework that defines types of consultation, parties to be consulted, purpose of consultation, and timetables for consultation. This type of framework would enable the sector to select the best possible methods to reach its desired results. A management framework would, among other things, take into account the views of those organizations who are key players in delivering programs. Over the years, these organizations have acquired experience and knowledge and have direct access to producers. They play a key role in enabling the Department to reach its objectives. It is therefore important to solicit their point of view regularly.

5.23 The sector had no procedures to translate their results more generally or to share best practices. Most of the consultations were one-time occasions, discussed specific issues, and benefited only one branch of the sector.

5.24 **Data gathering activities.** The availability of up-to-date statistical data is essential to developing and evaluating departmental policies and programs that support cultural industries. This sector has developed its own data-gathering mechanisms to meet its most urgent needs and to compensate for delays in the production of Statistics Canada's data on film, video, publishing, and sound recording industries. However, these branches must also satisfy other information needs, and significant financial resources must be allocated to this effect.

5.25 We found that neither the Cultural Affairs Sector nor the overall Department had clearly defined its information needs and priorities or established a strategy to obtain this information. Such a plan would be useful in situations where resources are limited and developing and acquiring data requires a lot of time and resources. Canadian Heritage must make choices and prioritize the kind of data it needs for its analyses, strategic choices, and performance measures.

5.26 By not clearly determining its future direction and the results it wants to achieve by supporting cultural industries, the Department risks being unable to respond effectively to demands and constant pressures from cultural industries. The Department also risks being unable to obtain the information it requires to change policies and programs in an environment that is increasingly technological and competitive. Finally, Canadian Heritage risks losing opportunities to improve its efficiency by not co-ordinating its efforts or profiting from lessons learned.

Some departmental management mechanisms need strengthening

5.27 The Cultural Affairs Sector cannot adopt a more strategic approach without the Department's support. It can demonstrate leadership, but it must be able to count on proven departmental mechanisms: strategic planning, an integrated risk management framework, and program evaluation. Based on our analysis, we noted that the Department needs to strengthen the following:

- **Program Activity Architecture.** In 2005, the Department equipped itself with a Program Activity Architecture that updates the link between its strategic outcomes and activities and will guide its planning and performance management efforts over the next few years. The Department has informed us that work is under way to develop performance indicators and targets and integrate them in its Program Activity Architecture. Several tools, such as departmental strategies for research, performance measurement, and data gathering, need to be developed to help implement strategic planning.

- **Integrated risk management framework.** Canadian Heritage has not yet adopted an integrated risk management framework, as the Treasury Board Secretariat requested in its April 2001 guidelines. However, it has put in place certain risk management elements: a centre of excellence to manage grants and contributions, an integrated planning and reporting system, environmental analysis, and an internal risk-based audit plan. But the Department has not yet integrated these measures into a coherent approach or established a strategy on how to do so.

- **Program evaluation.** The Department administers about 60 programs in the areas of cultural industries, arts, heritage, citizenship, sports, and official languages. The Treasury Board Secretariat's Policy on Transfer Payments requires that departments evaluate each contribution program every five years. The number and diversity of programs presents the Department with the challenge of equipping itself with an evaluation strategy that allows it to horizontally evaluate results from various programs with common or similar objectives. The Department has recognized there would be advantages in identifying possibilities for shared evaluations and has recently begun a pilot project.

5.28 **Recommendation**. Canadian Heritage should

- determine the results it wants to attain by supporting cultural industries over the next few years;
- put in place horizontal management mechanisms to address selected common issues in support of cultural industries; and
- strengthen departmental mechanisms for strategic planning, risk management, and program evaluation.

Canadian Heritage's response. The Department's Program Activity Architecture, as described in its 2005–06 *Report on Plans and Priorities*, identifies Canadian Heritage's strategic outcomes and defines its expected results for all program activities, including those supporting the cultural industries. The Department recognizes the need to further clarify the results statements and associated performance indicators for its support to cultural industries and intends to do so through the course of the fiscal year.

In addition, the Cultural Affairs Sector has been making improvements to its strategic management approach since November 2004. The Sector has developed a fully integrated approach for the management of its core functions and has started to identify additional horizontal management mechanisms to make this approach more strategic. These mechanisms include, for example, executive roundtables that will address horizontal policy and management issues in an integrated fashion.

The Department is in the final stages of implementing a departmental planning and reporting framework that will integrate risk-based strategic and operational planning with performance measurement and reporting. This framework, approved by the departmental executive committee in September 2003, has been shared with the Office of the Auditor General. The Department has an initial approved Integrated Risk Management Framework policy and has already taken steps to integrate key risk management practices into its strategic and operational planning processes (e.g. corporate risk profile, legal risk assessment, certain accountability accords, and risk-based audit and evaluation planning). More recently, the Department has established a focal point for Integrated Risk Management, independent of Internal Audit, to fully integrate risk management as part of the management culture and processes.

Following a large volume of program renewal-related evaluation work in the past year and a half that complied with Treasury Board Secretariat transfer payment policy requirements, the Department has approved a 2005–06 Audit and Evaluation Plan, which includes a number of horizontal program cluster evaluations. This will test the ability of the present Program Activity Architecture to tell a meaningful performance story. At the same time, work is underway to use audits and evaluations to better inform the Management Accountability Framework. The Department has also launched an assessment of its program evaluation function with a view to enhancing its contributions to strategic management.

Governance framework

5.29 The governance framework covering relations between the Department and delivery organizations is outlined in a series of four memoranda of understanding (MOU)s and 16 contribution agreements. We examined MOUs and contribution agreements worth more than $3.5 million per year negotiated between the Department and delivery organizations in the areas of feature film, television, sound recording, publishing, and new media. We also examined how and to what extent Canadian Heritage ensured the MOUs and contribution agreements were properly implemented.

Governance arrangements with other organizations could be better defined

5.30 Overall, the contribution agreements we examined respected most of the criteria that we identified in our November 1999 Report, Chapter 23, Involving Others in Governing: Accountability at Risk. However, we noted that these agreements did not clearly define program objectives and performance expectations. These deficiencies make it difficult to measure results and weaken the credibility of the organization's performance reports. Moreover, the contribution agreements we examined contained reporting and accountability requirements that did not take into account the relative importance of the projects funded. These agreements often included the same reporting standards for both small and large projects. Reporting requirements that do not take into account the level of risk involved unduly increase the design and administration costs of information systems for those organizations that deliver support measures.

5.31 We found that the Department used reports that its partners had provided, as well as internal audits, to monitor the way its agreements were implemented. Canadian Heritage followed up on issues the audit reports raised and took these into account in making decisions.

The governance of the Canadian Television Fund is complex

5.32 This section presents our concerns about the agreements with the Canadian Television Fund and Telefilm Canada.

5.33 The Canadian Television Fund: The corporation and the program. The Canadian Television Fund (CTF) is a non-profit corporation initially formed in 1994 under the name the Cable Production Fund/Le Fonds de Production des câblodistributeurs. At the time, the CTF administered contributions the cable industry made in accordance with CRTC decisions. In this chapter we identify the CTF corporation as the "CTF" or the "Canadian Television Fund."

5.34 In 1996, the government created the Canadian Television Fund Program (the CTF program) by combining the program administered by Cable Production Fund/Le Fonds de Production des câblodistributeurs with the Canadian Broadcast Program Development Fund, which Telefilm Canada had administered since 1983.

5.35 The CTF program, a public-private partnership, received an additional $100 million per year in federal funding and turned the two original funding programs into one program with two components:

- the Licence Fee Program, which "tops up" the licence fees broadcasters pay to producers, and
- the Equity Investment Program, under which Telefilm Canada invests directly in the production of a television program or series.

Through contribution agreements with Canadian Heritage, the CTF is responsible for the Licence Fee Program and Telefilm Canada is responsible for the Equity Investment Program.

5.36 The contribution agreement with the CTF also stipulates that the CTF oversees the policies, objectives, and guidelines of both programs and all of its activities. However, as we note in paragraph 5.40, Telefilm Canada's board must approve, among other things, the CTF program guidelines because of Telefilm Canada's responsibility for the Equity Investment Program.

5.37 The objectives of the CTF program are to assist in the creation and broadcast of high-quality television programs in prime time that contain Canadian cultural content, in both official languages, in the following four genres: dramas, documentaries, children's and youth programming, and variety and performing arts. The CTF program must also support Aboriginal-language productions, allocate one third of its funds to French-language productions, and promote regional productions in both official languages. From 1999–2000 to 2003–04, the CTF supported nearly 2,400 productions representing 12,000 hours of television programming. Those television programs included *The Newsroom*, *Cold Squad*, *Infoman*, and *Annie et ses hommes*.

5.38 In 2004–05, the CTF had a budget of $275 million. Of that budget, $39 million came from Telefilm Canada's parliamentary appropriation, $11 million from return on investments from Telefilm Canada, $100 million from Canadian Heritage contributions, and $125 million from cable and satellite distributors. See Appendix A for information about the financing structure of the Canadian Television Fund program.

5.39 Over the last few years, Canadian Heritage, Telefilm Canada, and the Canadian Television Fund have taken several steps to improve, among other things, transparency and accountability of the CTF. However, some governance and operations management issues remain outstanding.

5.40 **Two boards of directors.** Two boards are involved in administering the CTF program. According to the responsibilities stipulated in their own contribution agreement with the Department, the boards of both Telefilm and the CTF must approve the Equity Investment Program's administrative budgets, business plans, and the CTF program guidelines. Both the CTF and Telefilm told us that these approval requirements have created inefficiencies and that developing proposals likely to be acceptable to two boards has sometimes been time-consuming. It is not always easy for two boards with different mandates and sometimes divergent concerns to achieve a common understanding of a program's objectives.

5.41 **CTF board's conflict of interest, confidentiality, and independence guidelines are not applied rigorously.** The Canadian Television Fund's board of directors consists of 20 directors—5 appointed by the government, 14 appointed by audiovisual industry associations and the 1 appointed as Chair, selected either from among the directors or outside the board. The other directors formally elect the chair. The industry representation provides the board with expertise in the audiovisual field. However, it also opens the door to potential conflicts of interest, because the majority of the board directors are nominated by associations whose members receive CTF program funding or have direct or indirect interests in the broadcasting or production of television programs.

5.42 The presence of a Canadian Heritage representative and the Chairman of the Telefilm Canada board on the CTF board of directors raises another potential conflict. These directors have a fiduciary duty and duty of care to the CTF. However, they may also consider themselves to be accountable to the Deputy Minister of Canadian Heritage and the Telefilm board respectively. These duties could conflict with their duties as CTF directors.

5.43 We examined the procedures the Canadian Television Fund has put in place to manage the potential for conflicts of interest within its board of directors. The CTF adopted guidelines and procedures for managing conflict of interest, first in 1998, and then modified them in 2002 and 2004. In 2001, it formed a committee to ensure these guidelines were applied.

5.44 CTF guidelines and procedures cover personal conflicts of interests—that is, conflicts where CTF directors may have a direct or indirect interest in certain projects financed by the CTF. They do not cover sectoral interests—that is, the interests of the group that appointed the director.

5.45 The board establishes and oversees CTF program funding guidelines, which determine the eligibility and the level of funding of each genre. According to CTF's conflict of interest guidelines, in principle, CTF staff, not the board, make all decisions on contracts, projects, and applications.

5.46 The guidelines establish that if it becomes necessary for the board to consider any project financed by the CTF, directors should declare personal or corporate interests in the particular project; refrain from participating in the discussion, unless permitted by the Chair of the meeting; and refrain from voting on the matter. The minutes of the applicable meeting should reflect that this has been done.

5.47 We found that these guidelines and procedures were not rigorously applied. Although the minutes recorded occasions where directors identified a conflict of interest prior to the discussion and have abstained from voting on the issue, the minutes did not always indicate whether these guidelines have been followed. For example, on one occasion, discussion occurred before directors were asked to declare a conflict of interest. Although directors who had declared a conflict of interest were eventually excluded from voting, the full board discussed the proposal before the vote, contrary to the guidelines. In addition, we found that the minutes did not always record the reasons why directors had conflicts of interest in a particular matter or whether directors that had a conflict of interest had declined to participate in the discussion about the relevant issue.

5.48 The CTF also has a protocol for sharing confidential information with non-authorized individuals. CTF documents indicate that in 2004–05, some directors did not comply with the protocol. The documents did not specify, however, what the directors had failed to do.

5.49 In 2004, the CTF identified five positions on the board of directors, including the chair, which must be filled by persons deemed "independent." This refers to a person who has no direct or indirect financial interest in the allocation of the CTF resources and no material sectoral interest in the outcome of the board deliberations on the program's guidelines. The role of these independent directors in an "independent committee" is, among other things, to fulfill certain responsibilities with respect to the Conflict of Interest Guidelines. The board is required to determine annually that the independent directors satisfy the requirements in the CTF Policy on Independence of Directors. We found that the board had done so; however, it had not recorded the information that was the basis of its determination. Consideration should be given to clarifying the policy to ensure that this information is documented in the future.

5.50 **Unclear CTF program objectives.** In a public-private partnership, where priorities can sometimes compete, clear objectives are needed to provide specific direction to the board of directors in making strategic decisions. We found that CTF program objectives are broad and lack precision. For example, it is not clear whether a regional production is a production made in a particular region or one that depicts a region. Similarly, the objectives do not define Aboriginal-language productions. Are Aboriginal producers required, or should the production be about Aboriginal culture? In addition, it can be difficult to achieve simultaneously the objective of funding high-quality productions and other objectives to support Aboriginal and regional productions. In order to increase the number of productions from under-represented communities, CTF may support projects from inexperienced producers. The board must balance these sometimes competing objectives.

Administering the Canadian Television Fund program remains cumbersome

5.51 Until 2004, producers of television programs seeking funding under the Licensing Fee and Equity Investment programs had to submit one application to Telefilm Canada and another to the Canadian Television Fund (CTF). Following a report in June 2003 by the House of Commons Standing Committee on Canadian Heritage—which recommended, among other things, simplifying the operations and structure of the Canadian Television Fund—the two organizations created a single entry point for producers seeking funding under both programs. The CTF also created three separate streams, each drawing from both programs' funding sources: the English-Language Drama Stream, the Broadcaster Performance Envelope Stream (French-language drama, documentaries, children's and youth programming, and variety and performing arts), and the Special Initiatives Stream. Implementing the single entry point and the three funding streams required Telefilm Canada and the CTF to establish an administrative protocol, whereby Telefilm Canada manages the English-Language Drama Stream and the Special Initiatives Stream, and the CTF manages the Broadcaster Performance Envelope Stream.

5.52 The single entry point was successful in reducing the administrative burden for producers and the overlap of some operations in the two organizations. However, the requirements in the contribution agreements, which still divide in the same way the responsibilities of Telefilm Canada and the CTF, hinder efforts to simplify the system. Currently, 58 percent of applications by producers receive funding from both programs. They submit a single application but are required to sign two contracts for the same production, one with Telefilm Canada and another with the CTF. To process the applications, files and analyses go back and forth between Telefilm Canada and the CTF for approval, signature, and payment, which reduces the operational efficiency of both organizations. Moreover, the preparation of integrated financial statements for the CTF program has been a continuous source of difficulty for both organizations due to the different accounting methods used by Telefilm Canada and the CTF.

5.53 We found that, since its creation in 1996, the CTF program has changed in ways intended to simplify its structure and operations. However, despite definite improvements over the last 10 years, these changes have not sufficiently reduced the complexity in the governance structure of the CTF or resolved important operational efficiency issues. The current management structure of the Canadian Television Fund limits further improvement.

5.54 **Proposed governance change.** In June 2005, Canadian Heritage announced its intention to simplify the CTF governance structure and operations. According to its proposal, one board of directors—that of the CTF—would govern, manage, and be accountable for all television production programming and resources. Telefilm Canada would become a service provider. Under a service agreement with the CTF, Telefilm

Canada would administer the project selection process and inform the CTF of project decision funding. At the time of our audit, Canadian Heritage had not submitted its proposal to the government for approval.

5.55 **Recommendation.** Canadian Heritage should

- simplify the management structure of the Canadian Television Fund program; and
- clarify the objectives of the Canadian Television Fund program.

Canadian Heritage's response. Canadian Heritage agrees with this recommendation to clarify the objectives and results of the Canadian Television Fund program. Consultations have already been conducted to improve the governance of this public-private partnership.

5.56 **Recommendation.** The Canadian Television Fund should rigorously apply its conflict of interest, confidentiality, and independent committee guidelines and procedures and should ensure that it documents information supporting board decisions.

Canadian Television Fund's response. In the *Report of the Independent Committee for 2004–2005* dated 21 July 2005 (the Independent Committee Report), the Independent Committee indicated that it would take steps to ensure that all of the members of the board of the Canadian Television Fund (CTF) are aware (a) of their obligation *not* to disclose "Confidential Information" related to the CTF or its programs, except as permitted by the *Protocol on the Sharing of Confidential Information*, and (b) that Confidential Information related to the CTF's program guidelines and to certain other matters can only be shared with certain identified individuals if those individuals provide the CTF with a confidentiality undertaking in the required form.

In accordance with the recommendations in the Independent Committee Report, the board of the CTF now requires that, where a director declares that he or she has a conflict of interest or a potential conflict of interest, or the Independent Committee determines that a director or directors have conflicts of interest or potential conflicts of interest in respect of a particular matter, the minutes of the relevant meeting record the reasons for the declaration or determination.

In the future, individuals who have been nominated as "independent" directors will be required to provide information related to the criteria set out in CTF's *Policy on the Independence of Directors* to the CTF in writing before the board meeting, at which the board will make a determination about whether the individual is "independent" under the policy. This information will also be provided to the board before the relevant board meeting.

The board of the CTF and its Independent Committee will continue to manage conflicts of interest in accordance with CTF's *Conflict of Interest Guidelines*.

Concerns about Telefilm Canada's autonomy and implementing its new mandate

5.57 Telefilm Canada is a Crown corporation with a mandate, updated in March 2005, to foster and promote the development of the audiovisual industry in Canada and to act under agreements with Canadian Heritage.

5.58 In addition to its activities regarding feature film, Telefilm Canada administers, on behalf of Canadian Heritage, programs that support television, sound recording, and new media cultural industries. Memoranda of Understanding (MOUs) and contribution agreements between these two organizations govern the way both organizations administer these programs. MOUs and agreements on the Canadian Television Fund program date from 1996, while those in the sound recording and new media sectors date from 2001. An MOU on feature film was also ratified in 2001. These MOUs and contribution agreements were signed when Telefilm Canada's mandate covered only feature film. They enable Canadian Heritage to carry out these programs and account for the use of the funds received to support cultural industries.

5.59 Telefilm Canada receives about $200 million a year to carry out its mandate and implement the MOUs and contribution agreements. Of this amount, about $130 million comes from its parliamentary appropriations and $70 million comes from Canadian Heritage through contribution agreements. The MOUs on feature film and television require Telefilm Canada to, among other things, allocate specific portions of its parliamentary appropriation to the Canada Feature Film Fund and to the Canadian Television Fund program.

5.60 Lack of a clear mandate for the audiovisual sector and the significance of Telefilm Canada's activities in television, sound recording, and new media led us to qualify our audit opinion about the financial statements of Telefilm Canada and to make an observation on this matter in our November 2004 Report to Parliament. The government has subsequently resolved this situation, and in March 2005, Parliament broadened the Crown corporation's mandate to include these activities. Today, in light of this new mandate and the government's proposals on the governance of Crown corporations, we question whether it is still relevant for Canadian Heritage to maintain the MOUs and contribution agreements with Telefilm Canada in their current form.

5.61 These MOUs and contribution agreements contain detailed provisions requiring Telefilm Canada to do the following:

- Prepare separate annual business plans and audited financial statements for programs funded through contribution agreements. This task adds to the corporation's obligations to prepare a corporate business plan and audited financial statements, and entails changes to its organizational structure and its accounting and management systems in order to meet the agreements' requirements.
- Be subject to audits and evaluations by Canadian Heritage.
- Report on its activities to the Department and to the Canadian Television Fund, a private corporation, in addition to being accountable to Parliament, as its Crown corporation status requires.

5.62 **Telefilm Board autonomy.** A board of directors of a Crown corporation is responsible for managing of the corporation's activities. Directors must approve, among other things, the corporation's strategic direction and monitor performance. They are ultimately accountable to Parliament through a minister, normally referred to as the "responsible minister." Some members of the Telefilm Board have expressed concerns about the extent of the oversight that Telefilm Canada is subjected to, which leaves the board with little leeway to interpret its mandate and determine the best way to accomplish it. None of the other eight Crown corporations in the Canadian Heritage portfolio is subject to such a tight degree of oversight and monitoring. Moreover, no other Federal Crown corporation is evaluated and audited in this way by a department. This is a unique situation.

5.63 **Governance framework of Crown corporations.** In our view, the relative importance of the financing provided through contribution agreements and the extent of the oversight they require do not respect the spirit of the governance framework for federal Crown corporations. Normally, the framework provides direct financing from Parliament and allows the corporation considerable autonomy to manage operations. Furthermore, it is difficult to reconcile the extent of this oversight with Parliament's desire to insulate the creation of Canadian content from political interference by granting increased autonomy to Crown corporations with a cultural mandate, such as Telefilm Canada.

5.64 **Efficiency of the entities.** Finally, this oversight reduces the overall efficiency of Canadian Heritage and Telefilm Canada. On the one hand, the Department has to allocate resources to create monitoring procedures and to analyze the Crown corporation's operations. On the other hand, Telefilm Canada's requirements to abide by MOUs and contribution agreements, and to satisfy Canadian Heritage monitoring requirement add to its workload.

5.65 **Telefilm Canada's ability to realize its mandate.** In our view, Canadian Heritage must rigorously assess the impact of its June 2005 proposal to simplify the operations and structure of the Canadian Television Fund had on Telefilm Canada—in particular, Telefilm Canada's ability to implement Parliament's March 2005 decision to give Telefilm Canada the mandate to promote and foster the development of the audiovisual industry in Canada. According to this proposal (see paragraph 5.54), the CTF would become the only body responsible for the implementation of the CTF program, which is the main support instrument for television. Telefilm Canada would become an executing agency of the CTF, and its role would be limited to selecting and administering projects in accordance with criteria the CTF establishes. Thus, Telefilm Canada would have little influence on the design and orientation of television support programs. We recognize that this proposal could partly solve the oversight problem mentioned previously. However, in the absence of any other responsibilities in the television area, the implementation of the proposal could significantly limit Telefilm Canada's role in developing the television industry and also limit its ability to account to Parliament for this aspect of its expanded mandate.

5.66 It will be important to ensure that the agreements among Canadian Heritage, Telefilm Canada, and the Canadian Television Fund respect both Canadian Heritage's mandate to formulate policies in the audiovisual field, and Telefilm Canada's ability to deliver its mandate to develop the audiovisual industry in Canada.

5.67 **Recommendation.** Canadian Heritage should review and simplify the governance and delivery structure of support programs for the audiovisual industry, including film, television, and new media, in order to respect the mandate and accountability responsibilities of the Department and Telefilm Canada.

Canadian Heritage's response. Canadian Heritage agrees with this recommendation. The Department provides public policy leadership in the audiovisual sector. In that context, the Department will make proposals to improve the governance of the Canadian Television Fund as a public-private partnership in which Telefilm Canada's role will be clarified.

Telefilm will continue to play a key role in fostering and promoting the development of the audiovisual industry in Canada, including television, feature film, and new media. Consistent with its mandate, which shall be exercised in the broader context of the cultural policies of the Government of Canada, Telefilm assists in the development, production, and distribution of audiovisual projects; supports professional development in the audiovisual industry; supports the Canadian presence at audiovisual markets and festivals in Canada and abroad; and administers international audiovisual co-production agreements.

Application of controls

5.68 **Defining "Canadian content" in the audiovisual sector.** In Canada, the financing of audiovisual productions is directly tied to "Canadian content" requirements. Canadian content is a broad concept that includes the attribution of key creative functions to individuals who are Canadian citizens or permanent residents of Canada, and who are involved in productions that are effectively controlled by Canadian producers and distributed in Canada by Canadian distributors and broadcasters. The requirements for hiring Canadian key creative personnel vary depending on whether producers apply for tax credits or for financing of feature films or television programs (Exhibit 5.4).

Exhibit 5.4 Key creative functions points system for a Canadian audio-visual production*

Key creative functions	Points
Director	2 points
Screenwriter	2 points
Lead performer	1 point
Second lead performer	1 point
Director of photography	1 point
Art director	1 point
Music composer	1 point
Picture editor	1 point

A production must be allotted a minimum of

- 6 points to be eligible for tax credits (CAVCO)
- 8 points to be eligible for financing of feature films (Telefilm Canada)
- 10 points to be eligible for financing of television programs (CTF and Telefilm Canada)

*Canadian Audio-Visual Certification Office (CAVCO) and the CRTC

5.69 In 2004–05, the federal government spent more than $650 million in contributions and tax credits to support the production of feature films and television programs.

5.70 We examined the controls that Telefilm Canada and the Canadian Television Fund (CTF) have in place to ensure that the productions they finance meet Canadian content requirements and that producers are only reimbursed for eligible expenses. At the Canadian Audio-Visual Certification Office (CAVCO) in Canadian Heritage and at the Canada Revenue Agency (CRA), we examined the controls that ensure that tax credits are provided for eligible expenses incurred by Canadian producers for productions certified as Canadian. At the CRTC, we reviewed the controls in place to ensure that cable or satellite distribution companies pay their dues to the CTF. We tested the application of these controls by examining processes, reviewing files, and interviewing analysts and managers.

5.71 In the Canadian audiovisual field, the key risks Telefilm Canada and the CTF face include funding productions that are not Canadian and reimbursing ineligible production expenses. Another risk for Telefilm Canada is investing in productions with no prospect of public success. The key risks CAVCO and the CRA face is that they might issue tax credits to non-Canadian productions or to productions with significant foreign investment that are not under the effective control of Canadians.

A control framework appropriate to the nature of operations in the audiovisual sector

5.72 The Canadian Audio-Visual Certification Office, Telefilm Canada, the Canadian Television Fund, and the Canada Revenue Agency have processes, guidelines, and administrative policies in place to evaluate funding applications or assess tax credit claims. These rely on the following:

- Producers provide documentation. This includes the script, a list of the cast and crew, the chain of titles, the production budget, the project's financial structure, distribution agreements, an audited statement of production costs, an income tax return, and audited financial statements. At the time of the application, the documentation is accompanied by a declaration the producer signs attesting to the validity of the documents and stating that the information provided meets the funding agencies' requirements.
- Producers analyze the provided information.
- Audits and quality control reviews for some organizations.

Application of controls is not sufficiently rigorous

5.73 **The Canadian Audio-Visual Certification Office.** Canadian Heritage's CAVCO is responsible for certifying that a production is Canadian and thereby eligible for the Canadian film or video production tax credit. CAVCO certifies a production as Canadian if it satisfies criteria stated in the *Income Tax Act* and its regulations, including the requirement that a high percentage of the expenses are paid in Canada and to Canadians. CAVCO issues a certificate in two steps:

- It supplies Certificate (Part A) before or during the production, after examining the producer's documentation and checking it against the Canadian content requirement including the points system in Exhibit 5.4
- It supplies a Certificate of Completion (Part B) once the production is finished, based on documents illustrating the actual costs and compliance with Canadian content requirements. If a production does not have the second certificate (Part B), it will not qualify for the tax credit.

5.74 Our examination of CAVCO's controls and business processes showed it has identified certain risks but has not put in place formal control process and analytical tools. For example, CAVCO told us that it sorts files according to its perception of risks and assigns the most risky cases to experienced analysts. But it does not document this practice. A committee also reviews cases identified as problematic. In 2001, CAVCO produced a training manual for its staff. However, these measures do not allow analysts to identify and assess risks, systematically apply required controls, and document their analyses.

5.75 CAVCO does not have an independent quality control procedure. Although Canadian Heritage examined CAVCO's management practices in its 1999 review of the management practices of federal government mechanisms in support of film and television production, and again in a 2000 follow-up, it has not subjected CAVCO to an internal audit. As a result, the Department does not have recent data about the risk level of CAVCO's operations.

5.76 CAVCO never requires key creative personnel to submit documentation supporting their declaration of citizenship or permanent residence, even though it has the right to (Exhibit 5.4). Thus, this fundamental requirement for receiving Canadian certification is essentially based on the honour system.

5.77 Since September 2001, CAVCO has retained the Canada Revenue Agency's (CRA) services to conduct audits of files that it considers most at risk of not meeting Canadian content requirement. Between 2002 and the end of 2004, CAVCO referred 210 files to the CRA; it was concerned about the level of production spending in Canada and extent of Canadian producers' control. The CRA expressed concerns about 8 files out of 210 that, in its view, could have led to the revocation of Canadian certification. CAVCO disagreed with CRA concerns in four cases. Its officials explained to us that the CRA had not discovered any new facts justifying the certificates' revocation in these cases. CAVCO did not inform the CRA when it disagreed with its audit findings and did not act on them.

5.78 CAVCO communications with the CRA were deficient. Between 2002 and 2005, CAVCO did not forward the list of certified productions to the CRA and did not systematically inform the Agency when it revoked a certificate. During that period, the Agency relied on the Part A certificate received by fax from producers to issue the tax credits, without a guarantee of the certificates' validity. Producers rarely send the Agency the final Part B certificate, which they receive after the tax credit has been paid.

5.79 Without communication between CAVCO and the CRA about the issuance or revocation of certificates, the CRA cannot be assured that all the tax credits it allowed were for eligible Canadian productions. These controls are particularly important since CAVCO has identified foreign control of Canadian productions as a major risk. In early 2005, CAVCO resumed its practice of providing the CRA with monthly lists from its database showing the status of certification of productions. However, CRA employees told us CAVCO needs to improve these reports to facilitate access and retrieval of information about the status of certification or revocation of productions.

5.80 **Recommendation.** The Canadian Audio-Visual Certification Office of Canadian Heritage should

- document the potential risks to its business procedures and the controls it employs to mitigate those risks and implement a quality control process;
- obtain documents supporting the Canadian citizenship or permanent resident declaration for each key creative personnel who participates in an audiovisual production for the first time, and keep this information for future reference; and

- clarify and resolve its differences of opinion with the Canada Revenue Agency on Canadian content audits that the CRA conducted.

Canadian Heritage's response. We agree with this recommendation. The Canadian Audio-Visual Certification Office (CAVCO) has started working to improve its risk management strategy and quality control processes, including declarations of citizenship for key creative employees. This strategy will include maintaining the Canadian Content Certification Audit Program (CCCAP), which audits selected certificates on the basis of the risks identified. The measures adopted as a result of this exercise will provide analysts with better tools to identify and assess risks, and will allow them to apply control measures and document their analyses.

The Department also agrees to make CAVCO's business relations with the Canada Revenue Agency more efficient in order to optimize information sharing between the two parties and to ensure a consistent interpretation of CAVCO's policies with respect to the CCCAP.

Canada Revenue Agency's response. The Canada Revenue Agency and the Canadian Audio-Visual Certification Office have agreed on a strategy to improve communication between both parties in order to resolve differences of opinion.

5.81 **Telefilm Canada.** Under the Canadian Feature Film Policy, Telefilm Canada invests in feature films that must reach a box-office receipt target. It is also responsible for selecting television projects (subject to the Canadian Television Fund (CTF) program requirements) in the following genres: English drama, Aboriginal-language productions, and French-language productions outside Quebec. In its selection process, Telefilm Canada assesses the creative content, including the quality of the script and the director's vision, in addition to its financial elements and Canadian content eligibility. To help make these selections, Telefilm has created a national comparative process, in which staff evaluate projects according to a scale containing common criteria. Decisions based on qualitative data need to have a justification, especially given that Telefilm Canada rejects far more projects than it selects. It is therefore important that decisions rely on a rigorous process and are well documented.

5.82 Over the last few years, Telefilm Canada has extensively reviewed its policies and procedures and has put in place a good control framework, based on risks. Each year, Telefilm audits a sample of about 30 files to ensure that cost reports submited by the producers conform to its requirements. Finally, an external accounting firm acts as internal auditor to implement a risk-based audit plan.

5.83 Our examination of the way Telefilm Canada applies its controls revealed the following gaps:

- Project selection was not always justified through supporting documentation. Telefilm could not provide us with written justification on its decision to select some feature films in 2002. At the time of our examination, the organization had tightened its requirements for documenting decisions.
- Some files were particularly disorganized, which made it difficult to determine whether the procedures had been followed correctly.
- The Canadian citizenship of key creative personnel was not systematically confirmed. Telefilm explained that it assumed CAVCO undertook this task on its behalf, which is not the case (see paragraph 5.76).
- Analysts did not uniformly apply controls for the financial analysis of projects. This was especially true for reports about production costs, where there was limited documentation of the analysis. Telefilm did not have clear and up-to-date guidelines for its analysts, leaving them a lot of latitude. In addition, the Telefilm and Canadian Television Fund joint guidelines for production costs—Accounting and Reporting Requirements—were vague, especially for transactions by related parties. This, combined with the absence of clear guidelines, increased the risk of overbilling going undetected.

5.84 In 2005, Telefilm conducted a quality control review of the processing of English television drama applications. At the time of our examination, it had drafted recommendations to address weaknesses and was working on an action plan. To evaluate the value of the information on which it based financing decisions, Telefilm had also initiated a post-mortem on the selection of some English-language feature films that had failed at the box office.

5.85 **Recommendation.** Telefilm Canada should

- ensure that analysts apply controls rigorously, document decisions and analyses, and organize files uniformly;
- clarify, with the Canadian Television Fund, the guidelines on accounting and reporting requirements of production costs; specify what costs are acceptable, particularly regarding related-party transactions, and communicate this information to its analysts, producers, and their external auditors; and

- follow up on recommendations from its 2005 quality control review and ensure that this review becomes part of its permanent internal control procedure.

Telefilm Canada's response. In consultation with the Canadian Television Fund, Telefilm Canada has reviewed and clarified its policy regarding the accounting and reporting requirements. This new version was submitted to the producer associations, and will be disclosed to analysts, producers, and internal auditors through seminars.

Telefilm Canada has already reacted to the recommendations, which resulted from the quality control exercise. A first version of the quality control program has been issued. The program will be in effect during the next financial year. This permanent program should also reassure us that the controls are rigorously applied, that the analyses are well documented, and that the files are evenly organized.

5.86 **The Canadian Television Fund (CTF).** The CTF must ensure that the television projects it finances meet essential requirements. Each episode must reflect Canadian themes and subject matter, be shot and set primarily in Canada, and have achieved the maximum number of points (10) on the CAVCO scale for key creative functions. CTF staff must also ensure that the licence fee broadcasters pay complies with the threshold stated in the CTF guidelines for each genre. However, the CTF does not judge a project's creative content since the project already has the agreement of a broadcaster who reviewed the content when agreeing to broadcast the program.

5.87 We observed that the CTF provides a good framework to ensure that analysts address requests based on risk management principles. Procedures are documented, risks are identified and linked to controls, and analysts have tools to guide them in their examination and decisions, including access to a database showing how problems were resolved in previous cases.

5.88 Our audit revealed that the procedures were applied well. Files contained analyses verifying whether producers had met their initial commitments regarding CTF essential requirements. Staff conducted detailed reviews of budgets and financial reports, including related-party transactions. However, Telefilm Canada and CTF joint guidelines for production costs—Accounting and Reporting Requirements—were vague (see paragraph 5.83). Without clear guidelines that would, among other things, define the variances and unusual items that require explanation, these controls provide only limited assurance that production costs claimed were eligible.

5.89 As a quality control measure, the CTF reviews a sampling of files its analysts have processed. However, we found that the organization does not draw conclusions from these reviews. This prevents the CTF from fully benefiting from these controls and subsequently improving its practices. Since 2002, the CTF has referred an average of 40 potentially risky files a year to an external accounting firm for review, including two forensic reviews. The CTF did not have a formal procedure in place to inform the board of directors about risks these controls identified.

5.90 **Recommendation.** The Canadian Television Fund should

- strengthen its quality control procedure to ensure that the results are well-documented and acted on to improve business practices; and
- clarify, with Telefilm Canada, the guidelines for production costs—Accounting and Reporting Requirement; specify what is acceptable in terms of costs, particularly regarding related-party transactions; and communicate this information to its analysts, producers, and their external auditors.

Canadian Television Fund's response. There are two components to the CTF's quality control mechanism (a) internal file reviews (IFRs) concluded by the CTF's compliance manager, and (b) the approximately 40 files a year that are referred to an independent accounting firm. The IFRs are intended to audit compliance with the CTF's program guidelines and other policies and to evaluate consistency of interpretation and application of the guidelines. The reviews conducted by the independent accounting firm are financial audits of productions that have been funded by the CTF's programs.

(a) Internal file reviews. The CTF's compliance manager selects the files to be reviewed based on criteria that have not been formally documented. In general, the compliance manager has made these selections so as to ensure that the files reviewed represent a broad cross-section of analysts, types of productions (e.g., budget size and complexity), genres and producers. The compliance manager reports to the President/CEO and, where problems are identified, remedial action is taken.

In the future, the CTF will follow the following procedure for its IFRs, (i) on an annual basis, the compliance manager will prepare a compliance review plan that will set out the criteria to be used to select files for review and present the plan to the President/CEO and the Finance Committee for review and approval, and (ii) after the end of each financial year, the compliance manager will provide a written report to the President/CEO and the Finance Committee summarizing results of the IFRs conducted in the financial year which will include, if appropriate, recommendations for changes or remedial actions.

(b) Production reviews. The criteria used to select the files for review by the independent accountants have not been documented. In the past, these files have been selected by the compliance manager based on her assessment of risk. In recent years, the focus has been on related party costs.

When the independent accountants have completed the review of files for a particular year, a report on each file as well as a comprehensive report summarizing the results of the review and identifying problem areas and potential solutions has been delivered to the President/CEO. The most recent report, which relates to the 2001 slate of productions was delivered on 28 September 2005.

The CTF has engaged the independent accounting firm to assist it to develop a clearly articulated set of criteria for selecting files for financial audit. These criteria will be responsive to the risks, identified by the CTF in consultation with the independent accounting firm, related to the financial aspects of productions funded by the CTF. When this process is completed, the selection criteria will be reviewed/approved by the Finance Committee.

In the future, the comprehensive report from the independent accounting firm (including any recommendations for changes) will be presented to the Finance Committee for review.

The CTF and Telefilm have been working on revisions to the Accounting and Reporting Requirements policy for the past year. In keeping with the practices and policies of the CTF and Telefilm, the development of the revised policy has involved lengthy consultations with organizations representing producers. A revised draft of the policy was circulated to the producer organizations for comment in August 2005. The revised policy is modelled on the CRA's policies to the extent these policies are relevant and applicable. It is expected that this draft will be acceptable to the producer organizations with relatively few modifications. Once the policy is finalized, it will be posted on the CTF's Web site. In addition, the producer organizations will be given advance notice of the publication of the revised policy and will notify their members.

5.91 The Canada Revenue Agency. The Agency's policy is to review all Canadian Film or Video Production Tax Credit claims before issuing tax credits. Depending on the outcome of this review, claims are accepted as is or undergo a more in-depth audit for which the Agency allocates the necessary resources. Since 2001–02, the Agency has audited about 60 percent of the 1,100 tax credit claims it receives annually. Following these audits, it reduced the tax credit amounts claimed by about 5 percent each year, representing $7 million, in addition to other audit adjustments.

5.92 The Agency explained to us that its supervisors base their decisions to audit tax credit claims on several factors, including the size of the amount claimed, the claimant's history, and whether the claimant is new to the program. However, the Agency had not documented these risk factors, depending instead on the experience of the supervisors in each of its regional offices to determine which cases required audit. Furthermore, the Agency has not implemented a control system to review the quality of supervisor decisions. Given the importance of these decisions and considering the supervisor's role in determining the need for an audit, these decisions should be subject to quality control. In mid-2005, the CRA was working on a draft risk management policy for federal film tax credit programs that set the stage to better identify, document, and manage risks.

5.93 The files we consulted did not contain justifications for the audit decisions. In addition, decisions not to audit a claim were not always based on the risk criteria explained to us. In one file, the Agency granted a sizable tax credit without auditing the claim. The file did not justify the decision not to audit, or provide any supporting elements that would have showed a preliminary review of the claimant's information. A note in the file stated that a tax credit should be issued as soon as possible. The Agency explained that this production urgently required funds because it was approaching the end of its fiscal year. The Agency also stated that officials had considered many risk factors before deciding not to audit the claim. However, as none of this was documented in the file, we had to rely on the verbal explanation and could not conclude that the CRA had applied its controls.

5.94 We found that, as a result of its audit of the same project two years later, Telefilm had identified a substantial overbilling and had consequently billed the producer to recover part of its investment. The CTF had also detected overbilling during its first analysis of the project and had reduced the amount claimed. The same statement of production costs had been submitted to all three entities: Telefilm Canada, CTF, and CRA. Given that the expenses producers claim could have an impact on their tax credits, CRA could benefit in the future from being aware of Telefilm and the CTF analyses, which it has the right, under the *Income Tax Act*, to obtain.

5.95 **Recommendation.** The Canada Revenue Agency should

- examine and document the risks it faces in administering the Canadian Film or Video Production Tax Credit, review its audit strategy accordingly, set up key controls, and document them;
- create a procedure to review the quality of supervisor decisions; and
- establish a procedure that would allow it to benefit from the results of analyses done by Telefilm Canada and the Canadian Television Fund that have identified overbilling by producers.

Canada Revenue Agency's response. The CRA agrees and, as part of its risk assessment framework and audit strategy, has implemented a risk management policy for federal film tax credit programs. This comprehensive policy includes risk assessment criteria, key controls, and guidelines for processing claims. The policy was implemented nationally in October 2005.

The CRA has finalized and implemented the use of a "Risk Assessment Control Sheet," which is included in the CRA's risk management policy for federal film tax credit programs. The information captured will provide the CRA with a mechanism to review the quality of decision making of supervisors.

The Agency will determine the degree to which the "over-billing" information compiled by Telefilm and the CTF is beneficial to the CRA for purposes of administrating the Canadian Film or Video Production Tax Credit. If beneficial, the CRA will establish a mechanism with Telefilm and the CTF to obtain this information.

5.96 **The Canadian Radio-television and Telecommunications Commission.** The CRTC requires each cable or satellite distribution company to contribute five percent of its gross annual revenues from broadcasting activities to the creation of Canadian programming. The company must allocate a minimum of 80 percent of this contribution to the Canadian Television Fund, after deducting any contribution to its community channel that year.

5.97 To ensure companies comply with this requirement, the CRTC requires each distribution company to submit an audited financial report of each of its undertakings' gross annual revenues related solely to broadcasting activities, indicating the amount each company undertaking has paid to the CTF.

5.98 We observed that the CRTC checks the accuracy of the amounts distribution companies report they are required to contribute to the CTF against the amounts they report having paid. The analyses are rigorous and well documented. However, the CRTC does not inform the CTF of the amounts that it should receive from these companies. In our view, without reconciling the amounts the companies declared and the amounts CTF received, the CRTC cannot be assured that the amounts due to CTF were paid. The Canadian Television Fund explained to us that it has no way to verify whether the amounts it receives from the distribution companies match the amounts they report to the CRTC.

5.99 **Recommendation**. The Canadian Radio-television and Telecommunications Commission should inform the Canadian Television Fund of the amount each cable or satellite distribution company should have paid it the previous year, and should require confirmation from the Canadian Television Fund that it received those amounts.

Canadian Radio-television and Telecommunications Commission's response. The CRTC concurs with the recommendation and, commencing with the 2005 broadcast year, undertakes, as part of its annual verification of the amounts distribution companies are required to contribute to the Canadian Television Fund (CTF), to inform the CTF of the amounts it should expect to have received each year. The information will be made available to the CTF on a licensee-specific basis on the understanding that the CTF will keep it confidential and will not share it with other parties. Upon confirmation by the CTF of the amounts it has effectively received, the CRTC will follow-up as necessary with those distribution companies who have not contributed the expected amounts.

Overall efficiency of controls can be increased

5.100 **Overall efficiency of controls.** In 1999, following the disclosure of an alleged fraud case involving Cinar, Canadian Heritage examined the management practices of various federal organizations that support film, video, and television production. The ensuing report recommended that the Canadian Audio-Visual Certification Office (CAVCO), the Canada Revenue Agency (CRA), and the other organizations should be able to share their information more freely in order to minimize the risks of abuse and ensure better expenditure control.

5.101 In 2001 Canadian Heritage, Telefilm Canada, the Canadian Television Fund, and the Canada Revenue Agency set up a System Council to discuss topics of common interest, such as effectiveness of controls, information producers should be required to provide, and ways to share information.

5.102 Our examination showed that these discussions did not frequently translate into concrete action plans. However, they allowed Telefilm Canada and the Canadian Television Fund to improve co-ordination, harmonize some of their policies and management practices, and, exchange information about projects they fund with agreement from producers.

5.103 Nevertheless, problems involving communications and co-operation among these organizations persist:

- Despite improvements in 2005, CAVCO and the CRA, two government agencies that co-administer the same program and related provisions of the *Income Tax Act*, work largely independently in areas where they are interdependent and have no structured and sustained procedures to exchange information. This weakens both the controls and the efficiency of the Canadian Film or Video Production Tax Credit program.

- Since 2001, Finance Canada, in consultation with Canadian Heritage, has been trying to get the *Income Tax Act* amended to increase transparency and to make public key information about the Canadian certification of audiovisual productions, including identifying the individuals who were allocated points for occupying key creative functions. The amendment would also allow Canadian Heritage, the Canada Revenue Agency, Telefilm Canada, and the Canadian Television Fund to share information about a production. At the time of our audit, Finance Canada had not submitted the amendments to the Act to Parliament.

- Analyzing the audited statement of final production costs is an important control. It allows officials to determine the eligibility of submitted costs and, in some cases, to detect overbilling. The Telefilm and CTF joint guidelines for production costs—Accounting and Reporting Requirements—need to be clarified (see paragraphs 5.83 and 5.88). These guidelines need to be strengthened, and the CRA's expertise in this area could help.

- Three entities—CAVCO, Telefilm Canada, and the CTF—must ensure that audiovisual projects respect certain standards on the hiring of Canadians in key creative functions (Exhibit 5.4). We noted that the verification of Canadian citizenship or permanent resident status is essentially based on an honour system. Only CAVCO, by virtue of the *Income Tax Act*, could obtain reliable documentation to confirm Canadian citizenship or permanent resident status. To improve the quality of controls and efficiency of the system, one organization could verify this on behalf of the others.

5.104 Recommendation. Canadian Heritage should, in collaboration with

- the Canada Revenue Agency, put in place procedures to share, systematically and in a sustained manner, all information necessary to administer tax credits; and
- Telefilm Canada and the Canadian Television Fund, develop and adopt a common approach, based on reliable information, to certify the Canadian citizenship or permanent resident status of those accorded points for holding key creative functions in a production.

Canadian Heritage's response. We agree with this recommendation. Canadian Heritage will carry on with the work undertaken with respect to the System Council's mandate to improve (where possible) the information-sharing mechanisms between the Department and federal agencies and programs. The Department agrees to make the Canadian Audio-Visual Certification Office's (CAVCO) business relations with the Canada Revenue Agency more efficient in order to optimize information-sharing between the two parties and to ensure a consistent interpretation of the Office's policies with respect to the Canadian Content Certification Audit Program (CCCAP).

In its second response to the Lincoln Report, the government shared its intent to make CAVCO responsible for all of the Canadian content certification work on behalf of the federal agencies and programs. This measure will provide for the implementation of a single document validation system for the certification of key creative employees.

Canada Revenue Agency's response. The Canada Revenue Agency (CRA) and the Canadian Audio-Visual Certification Office (CAVCO) have agreed on a mechanism to optimize information sharing between both parties. CAVCO will provide the CRA with copies of all revocation letters it issues to applicants, in a timely manner.

Measuring and reporting results

5.105 Canadian Heritage's goal in assisting cultural industries is to support the creation of and access to Canadian content and to encourage participation in cultural life in Canada. The Department has pursued these objectives for several years.

5.106 We examined the procedures the Department has put in place to measure and communicate its results to Parliament, including results-based management and accountability frameworks, evaluations of cultural industry support programs completed since 2001, and the *2003–04 Departmental Performance Report*.

Tools to measure results and progress are inadequate

5.107 The Department has information on the production and consumption of Canadian content, but it knows little about the impact of its support measures on cultural industries (Exhibit 5.5). Information about results can be placed within a timeframe, with departmental support programs linked to actual results in terms of production (short term) and consumption (medium term) of Canadian content, and the effects of that production and consumption (long term).

5.108 **Performance measures to develop and targets to set.** Our analysis of production and consumption indicators showed that Canadian Heritage had not established targets or commitments to ensure that its support programs reach their objectives in helping to

Exhibit 5.5 Information on results

Cultural industry support measures	Production of Canadian content (short term)	Consumption of Canadian content (medium term)	Impact of support measures for Canadians (long term)
Feature film	●	◓	Little or no data available
Television	●	◓	
Publishing—books	●	◓	
Publishing—magazines	●	●	
Sound recording	●	●	
New media	●	◓	

● Reasonably complete data available ◓ Limited data available create, produce, and distribute Canadian content. For example, the production of Canadian content can be illustrated by the following results:

- CAVCO has certified on average 65 feature films per year over the past five years;
- the CTF has financed an average 2,400 hours of television per year over the same period;
- publishing firms supported by the Book Publishing Industry Development Program produced 6,098 new titles by Canadian authors in 2004–05; and
- Canadian record producers produced 2,059 Canadian CDs in 2003.

Although interesting, these results do not provide much information on the Department's performance or progress in providing support for the production and access to Canadian content. In the absence of targets, we do not know how to interpret or evaluate these results or the progress made.

5.109 We can appreciate the usefulness of targets by looking at the feature film industry. In 2000 the Department established an objective: increase audiences for Canadian films to five percent of the Canadian market, over a five-year period. Canadian films made up 4.55 percent of box-office returns generated in the Canadian market in 2004. Targets give program administrators direction. They also provide parliamentarians with a basis of comparison by which to judge the Department's performance and the results it achieved with its financial resources.

5.110 Current performance measures of the feature film policy only track movie theatre audiences. Since the policy's objective is to build larger audiences at home and abroad for Canadian feature films, the box office measure underestimates a film's audience because it does not take into account distribution by broadcasters, the revenue that DVD and video sales generate, and sales abroad. Furthermore, this measure does not separate the two linguistic markets in Canada.

5.111 **Management frameworks need improvement.** Our analysis of results-based management and accountability frameworks revealed that the definition of results in the short, medium, and long term, as well as the definition of performance indicators, lacked precision. The Cultural Affairs Sector of Canadian Heritage has improved its definition of expected results and corresponding indicators in two frameworks that it revised in 2005 (the Canada Music Fund and the Canadian Television Fund program). However, these programs still need to include measurable targets.

5.112 **Long-term impacts.** The Department does not have information about the long-term impacts of its programs (Exhibit 5.5). Information of this type is generally produced as part of a Department's program evaluations.

5.113 Canadian Heritage evaluated the Book Publishing Industry Development Program in 2004 and presented the results in its 2003–04 *Departmental Performance Report*. In 2005, it evaluated its Publications Assistance Program. It is currently completing an evaluation of the Canadian Television Fund program and is preparing to evaluate the Feature Film Policy.

5.114 Our analysis of the two completed evaluation reports showed that the Department found it very difficult to measure the programs' performance because it did not have the necessary data available at the time of the evaluations. The evaluation of the Book Publishing Industry Development Program recommended that the Department needed to improve its ability to measure progress on the program's cultural objectives. The evaluation of the Publications Assistance Program revealed a lack of clarity and consistency among various stated program objectives, and a lack of valid and reliable performance data at the time the Department conducted the evaluation.

5.115 We recognize it is difficult to measure the long-term effects of cultural industry support programs and to know to what extent any observed progress is attributable to departmental programs. However, this difficulty does not diminish the importance of continuing research and evaluation efforts. Program evaluations should allow the Department to obtain a clearer picture of its performance and the results it has achieved, and should allow the Department to determine the best way to improve its programs.

The departmental performance report needs improvement

5.116 The departmental performance report is the preferred vehicle for informing Parliament of results achieved during the period just ended. We evaluated the quality of the Canadian Heritage performance report for the year ended 31 March 2004, using an evaluation tool that our Office developed and published in 2002.

5.117 We found that the *2003–04 Performance Report* was deficient in several respects:

- there was no clear link between the Department's strategic objectives, the major results expected, and actual results achieved;
- there were no concrete expectations established for desired results; and
- information about results achieved was incomplete, based on volume and economic measurements, and did not provide much information about long-term impacts.

Our previous observations about weaknesses in results-measurement tools explain this situation in part. It means that Canadian Heritage is not able to adequately inform Parliament about its performance. The new Program Activity Architecture (see paragraph 5.27) could serve as a foundation for revising the Department's performance report.

5.118 **Recommendation.** Canadian Heritage should

- clarify its program objectives for support to cultural industries in relation to Department objectives;
- develop a performance measurement strategy that would specify, among other things, performance indicators and targets to monitor, assess, and account for its performance to Parliament;
- develop data-gathering strategies required to implement performance indicators; and
- include in its departmental performance report of its accomplishments, progress, and actual results through previously selected performance indicators and targets.

Canadian Heritage's response. The Department's Program Activity Architecture, as described in its *2005–06 Report on Plans and Priorities*, identifies Canadian Heritage's strategic outcomes and defines its expected results for all program activities, including those supporting the cultural industries. The Department recognizes the need to further clarify the results statements and associated performance indicators for its support to cultural industries and intends to do so through the course of the fiscal year.

An executive roundtable has been established within the Cultural Affairs Sector to define more precisely the results, performance indicators and targets for programs supporting the cultural industries.

Building on the performance measurement framework of the Program Activity Architecture, the Department will, this fiscal year, develop a performance measurement strategy that will specify, among other things, performance indicators, targets, and data-gathering mechanisms. This information will improve the Department's capacity to monitor and assess its performance and to report its accomplishments, progress, and actual results to Parliament in the departmental performance report. Work has been underway over the past six months to develop a department-wide data acquisition and development plan with Statistics Canada in the area of cultural statistics. A gap analysis is being conducted by Statistics Canada at Canadian Heritage request of what is currently collected on behalf of the Department and what may be required under the new Program Activity Architecture. This is an essential step in identifying and implementing appropriate performance indicators. A corporate review of Canadian Heritage Public Opinion Research has also been completed in the past year to better identify research and information that can address departmental strategic priorities. This was also shared with the Office of the Auditor General. Finally, a departmental research plan has been developed and approved by the Executive Committee that integrates all policy research activities for all Sectors, including that of programs supporting the cultural industries

Conclusion

5.119 Canadian Heritage needs to strengthen its strategic direction, results measurement, and accountability structures for its cultural industry support programs if it wants to improve the efficiency and effectiveness of its programs and operations. The Cultural Affairs Sector also needs to

- clarify the results it expects to achieve in supporting cultural industries over the coming years,
- define performance targets, and
- better account for the achievements and results it lists in the departmental performance report.

5.120 Canadian Heritage has considerable influence over the governance of the Canadian Television Fund (CTF) and Telefilm Canada through its contribution agreements with these two organizations. Although these agreements respond to the Department's legitimate need to report on the administration of its programs, they make the governance of the CTF and the relationships among these three organizations complex. They also significantly reduce Telefilm Canada's autonomy and its ability to achieve its mandate.

5.121 The Canadian Audio-Visual Certification Office of Canadian Heritage, Telefilm Canada, the Canadian Television Fund, and the Canada Revenue Agency have put in place a control framework appropriate to the nature of operations in the audiovisual sector. However, with the exception of the CTF, they do not apply their control rigorously enough. In the absence of a more systematic approach to risk management and to how decisions are documented, these organizations cannot be assured that Canadian content requirements are met, that projects are selected in accordance with criteria, that only eligible expenses are paid, or that tax credits are paid only for eligible expenses. Weaknesses in the sharing of information among all the organizations involved, including the Canadian Radio-television and Telecommunications Commission, also limit the effectiveness of controls.

About the Audit

Audit objectives

Our objectives were to determine whether

- Canadian Heritage has appropriate strategic direction, governance, control, results measurement, and accountability mechanisms to manage its cultural industries support;
- the Canadian Audio-Visual Certification Office of Canadian Heritage has controls to obtain reasonable assurance that audiovisual producers' projects meet the Canadian content requirements of the *Income Tax Act* and its regulations;
- Telefilm Canada and the Canadian Television Fund have controls to ensure that they are applying their contribution agreements with Canadian Heritage correctly;
- the Canada Revenue Agency has controls to obtain reasonable assurance that tax credits for Canadian film or video productions apply only to eligible expenditures; and
- the Canadian Radio-television and Telecommunications Commission has controls to obtain reasonable assurance that cable and satellite distribution companies paid the required percentage of their annual revenues to the Canadian Television Fund.

Scope and approach

Our examination focussed on the management of the support the Government of Canada provides to the film, television, publishing, sound recording, and new media industries.

We conducted our examination at the following organizations:

- Canadian Heritage and its Canadian Audio-Visual Certification Office,
- the Canada Revenue Agency,
- the Canadian Radio-television and Telecommunications Commission,
- Telefilm Canada, and
- the Canadian Television Fund.

Our audit methodology included analyzing various documents and reports, such as strategic plans, program evaluations, contribution agreements between the Department and with delivery partners, and databases, including the Canadian Audio-Visual Certification Office database; examining files; and meeting representatives from the audited entities, the industry, academia, or other jurisdictions involved in the business of supporting cultural industries.

We did not audit program recipients (producers, publishers, screenwriters).

To obtain an overview of support for cultural industries, we first focussed on the Department, its role and responsibilities in developing policies, monitoring their implementation, and measuring results, and its accountability procedures to Parliament. Then, we drew connections among organizations involved in the delivery of support measures and the way they discharge their responsibilities. Thus, we audited certain elements of the organizations' management; we did not examine the overall management of each organization.

Criteria

We expected Canadian Heritage to have strategic direction, in the form of

- a strategic approach to guide the Department in the management of its support for cultural industries;
- implementation strategies;
- relevant information and analyses, consultation with its main stakeholders, including third parties, and effective program co-ordination procedures on which to base its strategic direction and implementation strategies; and
- priorities and action plans.

We expected Canadian Heritage to have a governance framework for delivery organizations, established by

- developing a governance framework that promotes credible reporting, effective accountability, adequate transparency, and the protection of the public interest, including provisions addressing conflicts of interest;
- putting in place controls to ensure that memoranda of understanding and contribution agreements were complied with; and
- ensuring that memoranda of understanding and contribution agreements with Telefilm Canada preserve the autonomy and independence of the Crown Corporation.

We expected Canadian Heritage to have control of funds it pays producers in the audiovisual sector, by having obtained reasonable assurance that

- its delivery partners allocated funds in compliance with program terms and conditions;
- feature film and television projects satisfied Canadian content certification requirements, project selection criteria, and expense eligibility criteria; and
- the control framework put in place in collaboration with its delivery partners was efficient.

We expected Canadian Heritage to have performance measurement and reporting by

- setting clear and concrete performance expectations for support to cultural industries;
- assessing the results and impacts of its support programs;
- using information about performance to improve its programs; and
- communicating those results and the impact of the support provided to Parliament.

We expected Telefilm Canada to have controls to ensure that the feature film and television projects it funds satisfied Canadian content certification requirements, project selection criteria, and expense eligibility criteria.

We expected the Canadian Television Fund to have controls to ensure that the television projects it funds satisfied Canadian content certification requirements, project selection criteria, and expense eligibility criteria.

We expected the Canada Revenue Agency to have an effective control system to assess the tax credit claims that film and television producers filed.

We expected the Canadian Radio-television and Telecommunications Commission to have an effective control system to monitor the amounts cable and satellite distribution companies paid to the Canadian Television Fund.

These audit criteria are drawn from our work on accountability, results measurement, and management of grants and contributions.

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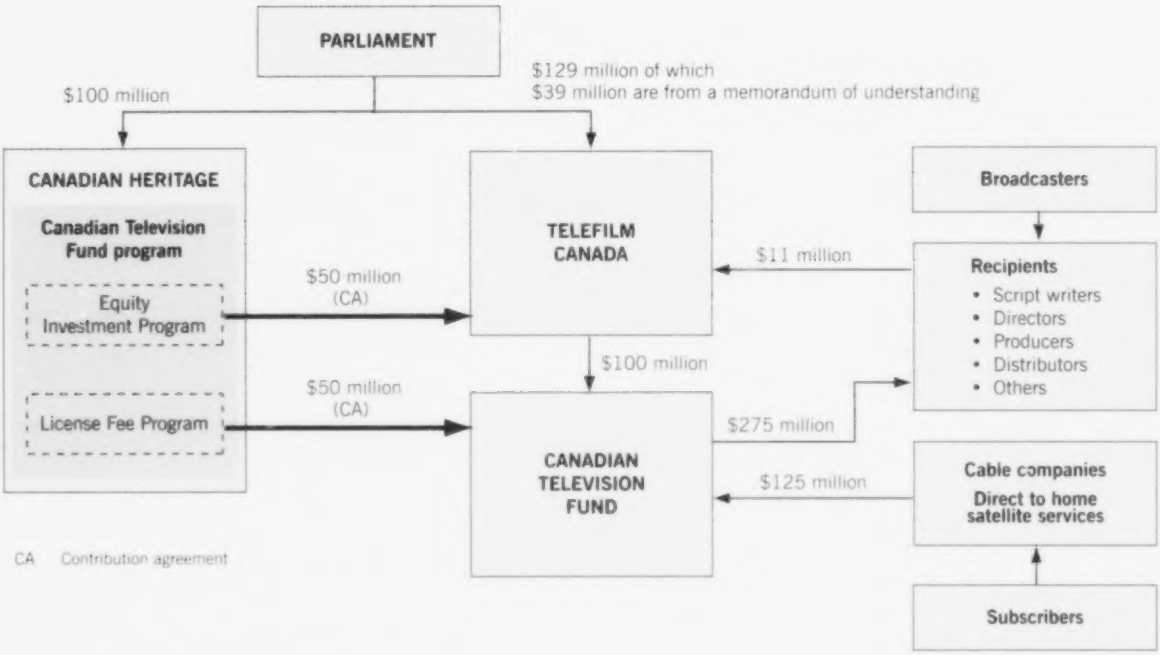
Appendix A Financing structure of the Canadian Television Fund program, 2004–05


PARLIAMENT
$100 million
$129 million of which
$39 million are from a memorandum of understanding
CANADIAN HERITAGE
Canadian Television Fund program
Equity Investment Program
License Fee Program
$50 million (CA)
$50 million (CA)
TELEFILM CANADA
$100 million
CANADIAN TELEVISION FUND
Broadcasters
$11 million
Recipients
• Script writers
• Directors
• Producers
• Distributors
• Others
$275 million
$125 million
Cable companies
Direct to home satellite services
Subscribers

CA Contribution agreement

Source: Data from Canadian Heritage, Canadian Television Fund, and Telefilm Canada

Appendix B List of recommendations

The following is a list of recommendations found in Chapter 5. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Department's response
Strategic management	
5.28 Canadian Heritage should • determine the results it wants to attain by supporting cultural industries over the next few years; • put in place horizontal management mechanisms to address selected common issues in support of cultural industries; and • strengthen departmental mechanisms for strategic planning, risk management, and program evaluation. **(5.27)**	The Department's Program Activity Architecture, as described in its 2005–06 *Report on Plans and Priorities*, identifies Canadian Heritage's strategic outcomes and defines its expected results for all program activities, including those supporting the cultural industries. The Department recognizes the need to further clarify the results statements and associated performance indicators for its support to cultural industries and intends to do so through the course of the fiscal year. In addition, the Cultural Affairs Sector has been making improvements to its strategic management approach since November 2004. The Sector has developed a fully integrated approach for the management of its core functions and has started to identify additional horizontal management mechanisms to make this approach more strategic. These mechanisms include, for example, executive roundtables that will address horizontal policy and management issues in an integrated fashion. The Department is in the final stages of implementing a departmental planning and reporting framework that will integrate risk-based strategic and operational planning with performance measurement and reporting. This framework, approved by the departmental executive committee in September 2003, has been shared with the Office of the Auditor General. The Department has an initial approved Integrated Risk Management Framework policy and has already taken steps to integrate key risk management practices into its strategic and operational planning processes (e.g. corporate risk profile, legal risk assessment, certain accountability accords, and risk-based audit and evaluation planning). More recently, the Department has established a focal point for Integrated Risk Management, independent of Internal Audit, to fully integrate risk management as part of the management culture and processes.

[illegible]	[illegible]
	Following a large volume of program renewal-related evaluation work in the past year and a half that complied with Treasury Board Secretariat transfer payment policy requirements, the Department has approved a 2005–06 Audit and Evaluation Plan, which includes a number of horizontal program cluster evaluations. This will test the ability of the present Program Activity Architecture to tell a meaningful performance story. At the same time, work is underway to use audits and evaluations to better inform the Management Accountability Framework. The Department has also launched an assessment of its program evaluation function with a view to enhancing its contributions to strategic management.
Governance framework	
5.55 Canadian Heritage should • simplify the management structure of the Canadian Television Fund program; and • clarify the objectives of the Canadian Television Fund program. **(5.51–5.54)**	Canadian Heritage agrees with this recommendation to clarify the objectives and results of the Canadian Television Fund program. Consultations have already been conducted to improve the governance of this public-private partnership.
5.56 The Canadian Television Fund should rigorously apply its conflict of interest, confidentiality, and independent committee guidelines and procedures and should ensure that it documents information supporting board decisions. **(5.51–5.54)**	In the *Report of the Independent Committee for 2004–2005* dated 21 July 2005 (the Independent Committee Report), the Independent Committee indicated that it would take steps to ensure that all of the members of the board of the Canadian Television Fund (CTF) are aware (a) of their obligation *not* to disclose "Confidential Information" related to the CTF or its programs, except as permitted by the *Protocol on the Sharing of Confidential Information*, and (b) that Confidential Information related to the CTF's program guidelines and to certain other matters can only be shared with certain identified individuals if those individuals provide the CTF with a confidentiality undertaking in the required form.

[illegible]	[illegible]
	In accordance with the recommendations in the Independent Committee Report, the board of the CTF now requires that, where a director declares that he or she has a conflict of interest or a potential conflict of interest, or the Independent Committee determines that a director or directors have conflicts of interest or potential conflicts of interest in respect of a particular matter, the minutes of the relevant meeting record the reasons for the declaration or determination. In the future, individuals who have been nominated as "independent" directors will be required to provide information related to the criteria set out in CTF's *Policy on the Independence of Directors* to the CTF in writing before the board meeting, at which the board will make a determination about whether the individual is "independent" under the policy. This information will also be provided to the board before the relevant board meeting. The board of the CTF and its Independent Committee will continue to manage conflicts of interest in accordance with CTF's *Conflict of Interest Guidelines*.
5.67 Canadian Heritage should review and simplify the governance and delivery structure of support programs for the audiovisual industry, including film, television, and new media, in order to respect the mandate and accountability responsibilities of the Department and Telefilm Canada. **(5.57–5.66)**	Canadian Heritage agrees with this recommendation. The Department provides public policy leadership in the audiovisual sector. In that context, the Department will make proposals to improve the governance of the Canadian Television Fund as a public-private partnership in which Telefilm Canada's role will be clarified. Telefilm will continue to play a key role in fostering and promoting the development of the audiovisual industry in Canada, including television, feature film, and new media. Consistent with its mandate, which shall be exercised in the broader context of the cultural policies of the Government of Canada, Telefilm assists in the development, production, and distribution of audiovisual projects; supports professional development in the audiovisual industry; supports the Canadian presence at audiovisual markets and festivals in Canada and abroad; and administers international audiovisual co-production agreements.

[illegible]	[illegible]
Application of controls	
5.80 The Canadian Audio-Visual Certification Office of Canadian Heritage should • document the potential risks to its business procedures and the controls it employs to mitigate those risks and implement a quality control process; • obtain documents supporting the Canadian citizenship or permanent resident declaration for each key creative personnel who participates in an audiovisual production for the first time, and keep this information for future reference; and • clarify and resolve its differences of opinion with the Canada Revenue Agency on Canadian content audits that the CRA conducted. **(5.73–5.79)**	We agree with this recommendation. The Canadian Audio-Visual Certification Office (CAVCO) has started working to improve its risk management strategy and quality control processes, including declarations of citizenship for key creative employees. This strategy will include maintaining the Canadian Content Certification Audit Program (CCCAP), which audits selected certificates on the basis of the risks identified. The measures adopted as a result of this exercise will provide analysts with better tools to identify and assess risks, and will allow them to apply control measures and document their analyses. The Department also agrees to make CAVCO's business relations with the Canada Revenue Agency more efficient in order to optimize information sharing between the two parties and to ensure a consistent interpretation of CAVCO's policies with respect to the CCCAP. The Canada Revenue Agency and the Canadian Audio-Visual Certification Office have agreed on a strategy to improve communication between both parties in order to resolve differences of opinion.
5.85 Telefilm Canada should • ensure that analysts apply controls rigorously, document decisions and analyses, and organize files uniformly; • clarify, with the Canadian Television Fund, the guidelines on accounting and reporting requirements of production costs; specify what costs are acceptable, particularly regarding related-party transactions, and communicate this information to its analysts, producers, and their external auditors; and	In consultation with the Canadian Television Fund, Telefilm Canada has reviewed and clarified its policy regarding the accounting and reporting requirements. This new version was submitted to the producer associations, and will be disclosed to analysts, producers, and internal auditors through seminars. Telefilm Canada has already reacted to the recommendations, which resulted from the quality control exercise. A first version of the quality control program has been issued. The program will be in effect during the next financial year. This permanent program should also reassure us that the controls are rigorously applied, that the analyses are well documented, and that the files are evenly organized.

Recommendation	Department's response
• follow up on recommendations from its 2005 quality control review and ensure that this review becomes part of its permanent internal control procedure. **(5.81–5.84)**	
5.90 The Canadian Television Fund should • strengthen its quality control procedure to ensure that the results are well-documented and acted on to improve business practices; and • clarify, with Telefilm Canada, the guidelines for production costs—Accounting and Reporting Requirement; specify what is acceptable in terms of costs, particularly regarding related-party transactions; and communicate this information to its analysts, producers, and their external auditors. **(5.86–5.89)**	There are two components to the CTF's quality control mechanism (a) internal file reviews (IFRs) concluded by the CTF's compliance manager, and (b) the approximately 40 files a year that are referred to an independent accounting firm. The IFRs are intended to audit compliance with the CTF's program guidelines and other policies and to evaluate consistency of interpretation and application of the guidelines. The reviews conducted by the independent accounting firm are financial audits of productions that have been funded by the CTF's programs. a) Internal file reviews. The CTF's compliance manager selects the files to be reviewed based on criteria that have not been formally documented. In general, the compliance manager has made these selections so as to ensure that the files reviewed represent a broad cross-section of analysts, types of productions (e.g., budget size and complexity), genres and producers. The compliance manager reports to the President/CEO and, where problems are identified, remedial action is taken. In the future, the CTF will follow the following procedure for its IFRs, (i) on an annual basis, the compliance manager will prepare a compliance review plan that will set out the criteria to be used to select files for review and present the plan to the President/CEO and the Finance Committee for review and approval, and (ii) after the end of each financial year, the compliance manager will provide a written report to the President/CEO and the Finance Committee summarizing results of the IFRs conducted in the financial year which will include, if appropriate, recommendations for changes or remedial actions.

b) Production reviews. The criteria used to select the files for review by the independent accountants have not been documented. In the past, these files have been selected by the compliance manager based on her assessment of risk. In recent years, the focus has been on related party costs.

When the independent accountants have completed the review of files for a particular year, a report on each file as well as a comprehensive report summarizing the results of the review and identifying problem areas and potential solutions has been delivered to the President/CEO. The most recent report, which relates to the 2001 slate of productions was delivered on 28 September 2005.

The CTF has engaged the independent accounting firm to assist it to develop a clearly articulated set of criteria for selecting files for financial audit. These criteria will be responsive to the risks, identified by the CTF in consultation with the independent accounting firm, related to the financial aspects of productions funded by the CTF. When this process is completed, the selection criteria will be reviewed/approved by the Finance Committee.

In the future, the comprehensive report from the independent accounting firm (including any recommendations for changes) will be presented to the Finance Committee for review.

The CTF and Telefilm have been working on revisions to the Accounting and Reporting Requirements policy for the past year. In keeping with the practices and policies of the CTF and Telefilm, the development of the revised policy has involved lengthy consultations with organizations representing producers. A revised draft of the policy was circulated to the producer organizations for comment in August 2005. The revised policy is modelled on the CRA's policies to the extent these policies are relevant and applicable. It is expected that this draft will be acceptable to the producer organizations with relatively few modifications. Once the policy is finalized, it will be posted on the CTF's Web site. In addition, the producer organizations will be given advance notice of the publication of the revised policy and will notify their members.

Recommendation	Department's response
5.95 The Canada Revenue Agency should • examine and document the risks it faces in administering the Canadian Film or Video Production Tax Credit, review its audit strategy accordingly, set up key controls, and document them; • create a procedure to review the quality of supervisor decisions; and • establish a procedure that would allow it to benefit from the results of analyses done by Telefilm Canada and the Canadian Television Fund that have identified overbilling by producers. **(5.91–5.94)**	The CRA agrees and, as part of its risk assessment framework and audit strategy, has implemented a risk management policy for federal film tax credit programs. This comprehensive policy includes risk assessment criteria, key controls, and guidelines for processing claims. The policy was implemented nationally in October 2005. The CRA has finalized and implemented the use of a "Risk Assessment Control Sheet," which is included in the CRA's risk management policy for federal film tax credit programs. The information captured will provide the CRA with a mechanism to review the quality of decision making of supervisors. The Agency will determine the degree to which the "over-billing" information compiled by Telefilm and the CTF is beneficial to the CRA for purposes of administrating the Canadian Film or Video Production Tax Credit. If beneficial, the CRA will establish a mechanism with Telefilm and the CTF to obtain this information.
5.99 The Canadian Radio-television and Telecommunications Commission should inform the Canadian Television Fund of the amount each cable or satellite distribution company should have paid it the previous year, and should require confirmation from the Canadian Television Fund that it received those amounts. **(5.96–5.98)**	The CRTC concurs with the recommendation and, commencing with the 2005 broadcast year, undertakes, as part of its annual verification of the amounts distribution companies are required to contribute to the Canadian Television Fund (CTF), to inform the CTF of the amounts it should expect to have received each year. The information will be made available to the CTF on a licensee-specific basis on the understanding that the CTF will keep it confidential and will not share it with other parties. Upon confirmation by the CTF of the amounts it has effectively received, the CRTC will follow-up as necessary with those distribution companies who have not contributed the expected amounts.

[illegible]	[illegible]
5.104 Canadian Heritage should, in collaboration with • the Canada Revenue Agency, put in place procedures to share, systematically and in a sustained manner, all information necessary to administer tax credits; and • Telefilm Canada and the Canadian Television Fund, develop and adopt a common approach, based on reliable information, to certify the Canadian citizenship or permanent resident status of those accorded points for holding key creative functions in a production. **(5.100–5.103)**	We agree with this recommendation. Canadian Heritage will carry on with the work undertaken with respect to the System Council's mandate to improve (where possible) the information-sharing mechanisms between the Department and federal agencies and programs. The Department agrees to make the Canadian Audio-Visual Certification Office's (CAVCO) business relations with the Canada Revenue Agency more efficient in order to optimize information-sharing between the two parties and to ensure a consistent interpretation of the Office's policies with respect to the Canadian Content Certification Audit Program (CCCAP). In its second response to the Lincoln Report, the government shared its intent to make CAVCO responsible for all of the Canadian content certification work on behalf of the federal agencies and programs. This measure will provide for the implementation of a single document validation system for the certification of key creative employees. The Canada Revenue Agency (CRA) and the Canadian Audio-Visual Certification Office (CAVCO) have agreed on a mechanism to optimize information sharing between both parties. CAVCO will provide the CRA with copies of all revocation letters it issues to applicants, in a timely manner.
Measuring and reporting results	
5.118 Canadian Heritage should • clarify its program objectives for support to cultural industries in relation to Department objectives; • develop a performance measurement strategy that would specify, among other things, performance indicators and targets to monitor, assess, and account for its performance to Parliament; • develop data-gathering strategies required to implement performance indicators; and	The Department's Program Activity Architecture, as described in its 2005–06 *Report on Plans and Priorities*, identifies Canadian Heritage's strategic outcomes and defines its expected results for all program activities, including those supporting the cultural industries. The Department recognizes the need to further clarify the results statements and associated performance indicators for its support to cultural industries and intends to do so through the course of the fiscal year. An executive roundtable has been established within the Cultural Affairs Sector to define more precisely the results, performance indicators and targets for programs supporting the cultural industries.

[illegible]	[illegible]
• include in its departmental performance report of its accomplishments, progress, and actual results through previously selected performance indicators and targets. **(5.116–5.117)**	Building on the performance measurement framework of the Program Activity Architecture, the Department will, this fiscal year, develop a performance measurement strategy that will specify, among other things, performance indicators, targets, and data-gathering mechanisms. This information will improve the Department's capacity to monitor and assess its performance and to report its accomplishments, progress, and actual results to Parliament in the departmental performance report. Work has been underway over the past six months to develop a department-wide data acquisition and development plan with Statistics Canada in the area of cultural statistics. A gap analysis is being conducted by Statistics Canada at Canadian Heritage request of what is currently collected on behalf of the Department and what may be required under the new Program Activity Architecture. This is an essential step in identifying and implementing appropriate performance indicators. A corporate review of Canadian Heritage Public Opinion Research has also been completed in the past year to better identify research and information that can address departmental strategic priorities. This was also shared with the Office of the Auditor General. Finally, a departmental research plan has been developed and approved by the Executive Committee that integrates all policy research activities for all Sectors, including that of programs supporting the cultural industries

Report of the Auditor General of Canada to the House of Commons—November 2005

Main Table of Contents

Matters of Special Importance—2005
Main Points—Chapters 1 to 8

Chapter 1 Royal Canadian Mounted Police—Contract Policing

Chapter 2 The Quality and Reporting of Surveys

Chapter 3 Canada Revenue Agency—Verifying Income Tax Returns of Individuals and Trusts

Chapter 4 Managing Horizontal Initiatives

Chapter 5 Support to Cultural Industries

Chapter 6 Elections Canada—Administering the Federal Electoral Process

Chapter 7 Indian and Northern Affairs Canada—Meeting Treaty Land Entitlement Obligations

Chapter 8 Other Audit Observations

Appendices

2005

Report of the

Auditor General of Canada

to the House of Commons

NOVEMBER

Chapter 6

Elections Canada—
Administering the Federal Electoral Process

Office of the Auditor General of Canada

The November 2005 Report of the Auditor General of Canada comprises Matters of Special Importance—2005, Main Points—Chapters 1 to 8, eight chapters, and appendices. The main table of contents is found at the end of this publication.

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Chapter

6

Elections Canada

Administering the Federal Electoral Process

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Table of Contents

Main Points 1

Introduction 3

Mandate, funding, and operations 3
How elections work 6
Focus of the audit 7

Observations and Recommendations 8

Preparedness for an election call 8

Elections Canada ensures that it is ready for an election call 8
Significant effort is devoted to maintaining the information needed to prepare the preliminary lists of electors 8
Opportunities exist for increased efficiency and cost savings in data collection and management 11

Delivering fair and transparent elections 13

Elections Canada ensures access to the electoral system for all eligible voters 13
Elections Canada assists and provides extensive support to returning officers 18
Controls are in place to monitor compliance with the *Canada Elections Act* 19

Delivering public education programs 22

Elections Canada has targeted groups to reach to increase voter participation 22

Performance measurement and reporting 23

The core elements of a good performance measurement framework are in place 23
Reporting on future strategic direction needs to be enhanced 24

Financial and human resources management 26

Financial resources are managed in accordance with relevant authorities 26
Human resources planning needs to be formalized 26

Conclusion 28

About the Audit 30

Appendices

A. Other key players in planning and delivering an election 32
B. Voting process on election day 33
C. Special Voting Rules 34
D. Process for counting ballots 35
E. List of recommendations 36

Elections Canada

Administering the Federal Electoral Process

Main Points

What we examined

Under the *Canada Elections Act*, Elections Canada is responsible for delivering federal elections and for supporting eligible voters, through public education and information programs. We examined the activities Elections Canada carries out to prepare for and deliver elections, to improve the electoral process, to educate and inform voters, and to manage its operations.

Why it's important

Through federal elections, voters choose members of Parliament to represent Canadians in the House of Commons. Election administration supports the democratic process in Canada by ensuring that all eligible voters can cast their ballots and that elections are fair and transparent. These principles guide Elections Canada's work.

Elections involve citizens at every level of the process. Citizens, election staff, and political parties all contribute to successful elections.

What we found

- Elections Canada plans, manages, and administers the federal electoral process well and in accordance with applicable authorities.
- Through good planning and regular updating of its geographic and voter information databases, Elections Canada stays prepared for an election that can be called at any time. It ensures that eligible voters can vote by helping them get their name on the lists of electors; by communicating how, when, and where to vote; and by providing flexible voting opportunities. It also provides considerable support to returning officers and their staff in delivering elections.
- Elections Canada plays a key role in supporting the fairness and transparency of elections by registering political entities and monitoring their financial activities, supporting and monitoring the activities of returning officers and election staff, and ensuring compliance with the *Canada Elections Act*. Further, it delivers a number of public education and information programs aimed at enhancing the understanding of the federal electoral process and increasing the participation rate of targeted groups of electors. We found that Elections Canada works effectively with Parliament and

other stakeholders to identify ways of improving the electoral process.

- Although Elections Canada has the core elements of a good performance measurement and reporting framework, it lacks performance targets and indicators for some of its key activities. As a result, its reports to Parliament are not clear on the extent to which those activities have been successful.
- While Elections Canada has in place some elements of a human resources plan, it uses information that is fragmented. This makes it difficult to anticipate future staffing needs, including the need for succession planning.

Elections Canada has responded. In its response to each recommendation throughout the chapter, Elections Canada indicates the action it has taken, is taking, or plans to take to address the recommendation.

Introduction

Mandate, funding, and operations

6.1 Canadians vote to elect members of Parliament to represent them in the House of Commons. All eligible Canadian citizens have the right to vote—a right the *Canadian Charter of Rights and Freedoms* reaffirmed in 1982. The *Canada Elections Act* sets 18 as the age at which citizens may exercise their right to vote, defines the conditions under which Canadians resident outside Canada can vote, and prohibits the Chief Electoral Officer and Assistant Chief Electoral Officer from voting.

6.2 The *Dominion Elections Act* of 1920 provided a legal foundation for the electoral system and created the independent Office of the Chief Electoral Officer, now more commonly known as Elections Canada. The legislation has evolved into the *Canada Elections Act*.

6.3 Parliament established Elections Canada as an independent body to administer elections, referendums, and other important aspects of our electoral system, in accordance with the *Canada Elections Act*, the *Referendum Act*, and the *Electoral Boundaries Readjustment Act*.

6.4 The Chief Electoral Officer of Canada heads Elections Canada and is appointed by a resolution of the House of Commons. The Chief Electoral Officer is an independent agent who reports directly to Parliament. As an Agent of Parliament, the Chief Electoral Officer is independent of the government of the day and serves until retiring at age 65 or resigning. The Governor General can only remove the Chief Electoral Officer from office for cause, following a joint request and majority vote by the House of Commons and the Senate.

6.5 **Mandate**. Section 16 of the *Canada Elections Act* outlines the Chief Electoral Officer's mandate concerning election readiness and delivery. Exhibit 6.1 summarizes his interpretation of these responsibilities. In recent years, the mandate was expanded by Parliament to include carrying out public education and information programs, as section 18 of the *Canada Elections Act* outlines.

6.6 The Chief Electoral Officer is responsible for managing Elections Canada's ongoing operations. Elections Canada does not deliver a government program. Elections are a citizens' activity, with citizen involvement at every level. Thus, Elections Canada is not solely responsible for the success of an election. Citizens, election staff, and political parties play roles that are beyond Elections Canada's control.

6.7 **Funding.** An annual appropriation and a statutory authority finance Elections Canada. The annual appropriation provides the salaries of permanent employees and is subject to approval by Parliament as part of the annual main estimates process.

6.8 All other expenditures the Chief Electoral Officer incurs when delivering his mandate are covered by the statutory authority (Exhibit 6.2). The statutory authority granted to the Chief Electoral Officer is unique. The Chief Electoral Officer has ongoing authorization to draw on the Consolidated Revenue Fund without additional parliamentary approval. The *Canada Elections Act* has granted this authority since creating the Office of the Chief Electoral Officer. Legislators likely instituted this provision to ensure that elections would be effective, fair and impartial, and free of government influence. Elections Canada cannot precisely estimate its annual operating budgets, because no one knows in advance when a general election or by-election will be called.

Exhibit 6.1 Chief Electoral Officer's responsibilities

The Chief Electoral Officer's responsibilities include

- making sure that all eligible voters have access to the electoral system;
- informing citizens about the electoral system;
- maintaining the National Register of Electors;
- enforcing electoral legislation;
- training election officers;
- producing maps of electoral districts;
- registering political parties, electoral district associations, and third parties that engage in election advertising;
- administering the allowances paid to registered political parties and reimbursements of eligible election expenses to registered political parties and candidates;
- monitoring the election spending of candidates, political parties, and third parties;
- publishing financial information about political parties, electoral district associations, candidates, nomination contestants, leadership contestants, and third parties;
- supporting the independent commissions responsible for adjusting the boundaries of federal electoral districts following each decennial (10-year) census; and
- reporting to Parliament about the administration of elections and referendums.

Source: Elections Canada

6.9 The Chief Electoral Officer's statutory authority also covers payments to political parties and candidates for the allowances and reimbursements outlined in the *Canada Elections Act*. Finally, the *Referendum Act* and the *Electoral Boundaries Readjustment Act* also grant the Chief Electoral Officer statutory spending authority.

6.10 Although not required to do so, the Chief Electoral Officer provides Parliament with an estimate of how much Elections Canada will spend under the statutory authority, as part of the annual main estimates process.

6.11 **Operations.** During 2004–05, Elections Canada employed about 270 permanent employees. The annual appropriation from Parliament finances their salaries. The statutory authority pays the salaries of 117 term employees. As an election approaches, the number of permanent and term employees can grow to more than 600 at headquarters in Ottawa. Elections Canada hires about 170,000 citizens to deliver the election on election day.

6.12 Elections Canada's spending varies significantly from year to year, depending on the timing of general elections and by-elections (Exhibit 6.3). Since the introduction of the permanent register of electors in 1997, which replaced door-to-door enumeration for elections, major changes and initiatives designed to improve the

Exhibit 6.2 Expenditures covered by statutory spending authority, not by annual appropriation

Section 553 of the *Canada Elections Act* provides for the following expenditures:

- the Chief Electoral Officer's salary;
- expenses incurred by the Chief Electoral Officer while exercising his powers and discharging his duties for
  - remuneration paid to any staff hired on a temporary basis,
  - additional remuneration paid to permanent staff for overtime, and
  - any administration expenses;
- expenses incurred in acquiring information to update the permanent register of electors;
- fees, costs, allowances, or expenses for election officers according to rates established in regulation;
- expenses incurred in preparing and printing election material and procuring election supplies; and
- expenses incurred by the Commissioner of Canada Elections while discharging his duties.

Source: *Canada Elections Act*

electoral process have increased spending. These initiatives include improving the quality of the information in the National Register of Electors, accuracy of voter information cards, communication with voters, and the public enquiries system, as well as changes to the *Canada Elections Act* regarding political financing.

6.13 The direct costs of the 2004 general election amounted to an estimated $212.4 million compared with $150.1 million for the 2000 general election. The cost per eligible voter increased from $7.07 in 2000 to $9.45 in 2004. Increases in reimbursements to political parties and candidates, inflation, population, fees established by regulation, and the number of electoral districts all contributed to the overall increase in costs.

6.14 Other key players involved in planning and delivering elections include returning officers, deputy returning officers, poll clerks, the Commissioner of Canada Elections, federal electoral boundaries commissions, and the Broadcasting Arbitrator (Appendix A).

How elections work

6.15 Under our Constitution, a general election should be called at least every five years. The Governor General dissolves Parliament, usually at the Prime Minister's request, and the Governor in Council formally calls an election, sets the election date, and instructs the Chief Electoral Officer to issue the election writs—the documents that instruct returning officers in electoral districts to conduct an election on a specified date. By law, an election cannot be held sooner than 36 days after the writs are issued.

Exhibit 6.3 History of spending ($ thousands)

Year	1997–98*	1998–99	1999–2000	2000–01*	2001–02	2002–03	2003–04	2004–05*
Appropriation	2,489	2,589	2,832	4,750	11,675	12,528	13,401	17,795
Statutory	196,583	29,397	34,200	198,101	37,881	61,058	96,350	255,845
Total spending	**199,072**	**31,986**	**37,032**	**202,851**	**49,556**	**73,586**	**109,751**	**273,640**
Number of By-elections	1	1	5	3	0	9	3	0

* General election year

Source: Elections Canada's departmental performance reports

6.16 While most voters cast their ballots on election day, some voters may choose to vote a week early at an advance poll. Voters who register in advance under the Special Voting Rules may mail their ballots directly to Elections Canada or vote in the office of the returning officer in their riding. Except for some ballots cast under the Special Voting Rules, all ballots are counted on election day, regardless of when they are cast.

6.17 For more information on how the voting process works on election day, how the Special Voting Rules operate, and how ballots are counted, see appendices B, C, and D, or consult Elections Canada's Web site at www.elections.ca.

Focus of the audit

6.18 Our audit focussed on Elections Canada's activities to maintain readiness for and deliver elections, improve the electoral process, educate and inform voters, and manage its operations.

6.19 Our objectives were to determine whether Elections Canada

- adequately plans, manages, and administers the federal electoral process;
- manages its activities and resources in accordance with applicable authorities, such as the *Canada Elections Act*, the *Electoral Boundaries Readjustment Act*, the *Privacy Act*, the *Financial Administration Act*, and Treasury Board policies and guidelines;
- identifies and acts on ways to improve the federal electoral process and the *Canada Elections Act*; and
- adequately measures performance and reports results achieved.

6.20 We only examined Elections Canada's activities for general elections, not for by-elections or referendums. We did not examine the activities of returning officers and their staff during the election period or on election day. Therefore, we cannot comment on election delivery. Finally, we did not examine the Broadcasting Arbitrator's activities.

6.21 For more information about the audit's objectives, scope, approach, and criteria, see **About the Audit** at the end of this chapter.

Observations and Recommendations

Preparedness for an election call

Elections Canada ensures that it is ready for an election call

6.22 Under the Canadian parliamentary system, the length of time between federal elections is not fixed, although the House of Commons cannot normally sit for more than five years. Since Elections Canada is required to be ready at all times to deliver an election, planning for readiness is a challenge, given the uncertainty about the timing of elections. We found that the organization's planning systems and practices ensure that it is always ready for an election call.

6.23 Elections Canada continually monitors parliamentary and political activities and trends to identify factors that might affect the timing of elections. The Chief Electoral Officer establishes a date for readiness, based on possible dates for an election. The selected date becomes the deadline for reaching the highest level of readiness. Elections Canada prepares a detailed plan of more than 800 high-level activities that it must complete by the readiness date. Each activity is mapped on a calendar that shows the start and finish date for the activity and its relationship to other activities. If the deadline passes without an election call, Elections Canada prepares a new plan based on the next established date.

Significant effort is devoted to maintaining the information needed to prepare the preliminary lists of electors

6.24 Under the *Canada Elections Act*, all eligible voters are entitled to have their names included on the lists of electors for the polling division where they reside. There are about 58,000 polling divisions in 308 electoral districts. Inclusion on the list confirms the voters' eligibility to vote; assignment to electoral districts and polling divisions determines the slate of candidates from which they will choose their member of Parliament and where they will cast their ballot. To assign voters to the correct polling division, Elections Canada must know their current residential address, which officials must be able to locate on maps identifying polling divisions.

6.25 **Maintaining the National Register of Electors.** In 1997, after an amendment to the *Canada Elections Act*, Elections Canada changed its voter registration process from enumeration to a permanent register, the National Register of Electors. The Register was used for the first time in the 2000 general election. Elections Canada devotes significant effort to maintaining and regularly updating the names, residential and mailing addresses, birth dates, and gender of eligible voters listed in the Register. Since the 2000 election, updating the Register has cost $19.4 million. There are currently 40 full-time employees devoted to maintaining the Register. Elections Canada officials use the information they gather to create the preliminary lists of electors (paragraph 6.43).

6.26 Under 36 data-sharing agreements, Elections Canada receives regularly updated information, related to identification of electors, from the Canada Revenue Agency, Citizenship and Immigration Canada, the Canada Post Corporation, provincial and territorial electoral agencies, provincial and territorial registrars of motor vehicles and vital statistics, and Ontario's Municipal Property Assessment Corporation. It uses that information to maintain the National Register of Electors.

6.27 Maintaining the quality of information in the Register presents some significant challenges for Elections Canada. First, a voter normally must consent to being added to the Register. Second, about 17 percent of voter information changes each year, including the addresses of voters who move, and the addition of newly eligible voters and removal of deceased voters. Third, the use of multiple data sources from outside Elections Canada creates the risk of receiving different information about the same person or receiving incomplete or incorrect information. A lag between the date a change is made to the source data and the date that Elections Canada receives the new data may cause the problem. Discrepancies may also be caused by the fact that the organization maintaining the source data is collecting different information from the data Elections Canada requires. For example, driver's licence files are a valuable source of information on electors reaching 18 years of age, but they do not provide the consent and the confirmation of citizenship that are required prior to adding new electors from these files.

6.28 To manage these risks and to prevent errors, Elections Canada uses preventive procedures and conducts manual investigations. Elections Canada has put controls in place to prevent electors being listed under old information or removed in error, or ineligible electors being added to the Register. For example, it has developed matching techniques to identify duplicate records, and it mails out forms to confirm citizenship or to request consent to be added to the Register.

6.29 Recognizing the importance of the quality of information in the National Register of Electors, Elections Canada has set targets for quality: 92 percent for coverage (the proportion of the estimated total number of eligible voters who are included in the Register) and 77 percent for currency (the percent of all eligible voters at the correct address). The estimates Elections Canada released in May 2004 on the information in the preliminary lists of electors indicated coverage rates of more than 95 percent and currency rates of more than 81 percent.

6.30 The proportion of eligible voter information that changes each year and the inherent lag between when information changes and when Elections Canada learns of the changes limits the completeness and accuracy of the information in the National Register of Electors at any given time. As discussed later in this chapter, Elections Canada conducts additional revision activities during an election period, to increase the completeness and accuracy of the lists of electors on election day. The overall efficiency of Elections Canada's data collection and management depends upon the proper mix of activities between elections and during the election period to maximize the completeness and accuracy of the lists of electors on election day.

6.31 **Maintenance of geographic databases**. Elections Canada maintains and regularly updates a comprehensive database of geographical information and digital maps that it can automatically link to voters' residential information. It maintains that geographic information in its National Geographic Database and its Electoral Geography Database. Since the 2000 general election, its geographic activities have required 34 full-time employees and cost $16.6 million.

6.32 The National Geographic Database contains streets, street names, and address ranges, as well as other geographic features such as rivers and lakes. Elections Canada collaborated with Statistics Canada to create this database in 1997. Both organizations continue to manage and operate the database jointly to support their own programs. Elections Canada recognizes that maintaining a digital road network is not its primary responsibility. However, when it created the National Geographic Database, no other organization had all the information needed to create the geographic databases that are essential to produce election maps and assign voters to polling divisions. Elections Canada also uses this information to support the activities of the electoral boundaries commissions. The Electoral Geography Database contains the boundaries of the 308 electoral districts and about 58,000 polling divisions. The information in the National Geographic Database and the Electoral Geography Database is combined to produce the various maps and other geographic products required to support electoral events.

6.33 **Determining electoral district boundaries**. Independent of Elections Canada, the federal electoral boundaries commissions determine the boundaries of electoral districts, which are designed to distribute the population fairly across districts. The last redistribution was completed in 2003, based on the 2001 census.

6.34 Under the *Electoral Boundaries Readjustment Act*, Elections Canada supports the boundaries commissions and pays their operating costs. The last boundary readjustment cost $10.1 million, including the $4.1 million Elections Canada incurred internally to support the commissions. Elections Canada's support includes calculating the number of electoral districts, based on Statistics Canada's census information; providing orientation sessions for commissioners; providing administrative and technical assistance; and communicating with the government and the public. We found that Elections Canada's level of support fulfills the Act's requirements.

6.35 **Assignment of voters to polling divisions.** Elections Canada assigns voters to polling divisions using its address geo-coding system that interfaces with the Electoral Geography Database. This system matches the residential addresses in the Register with the mapped addresses in the National Geographic Database. Elections Canada manually geo-codes electors who cannot be matched automatically. To assist in the manual matching, Elections Canada mails letters to voters to confirm their residential addresses and engages returning officers to verify addresses. Through a combination of automated and manual processes, it calculates that for the 2004 general election it geo-coded more than 99 percent of voters on the lists of electors.

Opportunities exist for increased efficiency and cost savings in data collection and management

6.36 Elections Canada needs information about eligible voters as well as geographic information, such as a national digital road network, to carry out its mandate. Many other public sector organizations at the federal, provincial, and territorial levels require similar information to carry out their own programs. They each devote resources to develop and operate systems and carry out activities to collect, manage, and share this information.

6.37 Elections Canada recognizes that there are opportunities, and has undertaken a number of initiatives, to increase efficiency and save money on a government-wide and multi-jurisdictional basis in the collection and management of such information. The rapid evolution of technology could also provide opportunities to increase the cost-effectiveness of data collection and management. However, any such opportunities need to be pursued according to various legislative requirements.

6.38 In 2003, Elections Canada and Elections British Columbia merged their lists of electors. Elections British Columbia was the first electoral agency in Canada to create a permanent list of electors. This merger was completed after a joint quality audit determined that both Elections Canada and Elections British Columbia would benefit from a merger of their electoral lists and after the necessary legislative changes were made to allow for the merger. Elections Canada is also involved in a project with Elections Ontario and Ontario's Municipal Property Assessment Corporation to develop a single list of electors for the province.

6.39 Elections Canada is working with other federal organizations to participate in a common national digital road network. It belongs to the Inter-Agency Committee on Geomatics, which consists of federal departments with significant geomatics (computerization applied to geography) infrastructure. A subcommittee is considering the possibility of creating a network that would eventually be available to all federal departments and agencies. Finally, discussions are taking place with the Canada Post Corporation on how to co-operate in maintaining a road network and addresses.

6.40 In 2002, Elections Canada initiated a study to assess the feasibility of developing and implementing an on-line voter registration system. The results of the study indicated that significant benefits would result from such an initiative. However, Elections Canada determined that security and privacy issues would need to be addressed; legislation would need to be amended; and existing systems would need to be updated, requiring significant human and financial resources. Nevertheless, Elections Canada indicated that on-line voter registration is still a priority.

6.41 **Recommendation.** Elections Canada, in collaboration with other public sector organizations, should pursue its efforts and explore additional ways to rationalize and improve the overall efficiency of data collection and management of information on Canadians and Canadian geography.

Elections Canada's response. Elections Canada will continue to be a trailblazer and to provide leadership to rationalize and improve efficiency while providing the best possible service to Canadian electors.

We will build on the 36 existing agreements with various federal, provincial, territorial, and municipal agencies to support voter registration. To date, data-sharing partnerships with electoral agencies have resulted in significant savings.

The Electoral Technology Accord signed by all provincial and territorial chief electoral officers builds upon data-sharing partnerships and demonstrates their commitment to increased co-operation to achieve cost savings and efficiencies through common processes and services, shared data, and expertise.

We will continue to maintain the National Geographic Database with Statistics Canada, as well as partner with Statistics Canada and other federal organizations to develop a common national road network through the Inter-Agency Committee on Geomatics, which is co-chaired by Natural Resources Canada and the Department of National Defence. Finally, we will pursue additional partnerships in this area with the Canada Post Corporation.

In June of this year, Elections Canada launched a strategic review of voter registration, in collaboration with all stakeholders, to continue improving list quality and voter registration services. New partnership opportunities are expected to arise from this project.

The Chief Electoral Officer's recent report to Parliament on proposed changes to the *Canada Elections Act* includes recommendations specifically designed to further facilitate register and geography partnerships, such as recommendation 2.20, Sharing Elector Data with Provincial Electoral Authorities for Updating Purposes, and recommendation 2.21, Sharing Neutral Address and Geographic Information.

Delivering fair and transparent elections

Elections Canada ensures access to the electoral system for all eligible voters

6.42 One of the Chief Electoral Officer's priorities is to ensure that all eligible voters can access the electoral system. Elections Canada is responsible for getting new voters on the National Register of Electors and revising the residence information of those already on the Register. It is also responsible for communicating with voters about how, when, and where to exercise their right to vote, particularly those voters who might have trouble casting their ballots. Finally, Elections Canada must offer voters alternative ways to cast their ballots. These alternatives must respect the personal circumstances of voters who can't get to a polling station, such as hospital residents, armed forces personnel, or inmates. Our review of Elections Canada's activities revealed that it provides significant support to voters to ensure access to the electoral system for all.

6.43 Preparing and updating the preliminary lists of electors. When the Chief Electoral Officer issues the election writs, Elections Canada uses the National Register of Electors to create preliminary lists of electors for each electoral district. Returning officers use these lists during the election period to revise (update, correct, add, and delete) eligible voter information. Candidates also use these lists in their campaigns. Finally, Elections Canada uses the lists to calculate election expense limits for political parties and candidates.

6.44 For the 2004 general election, Elections Canada spent $50 million on revision activities to update the information on the preliminary lists of electors. This amount included $14.9 million for voter information cards that serve both revision and communication purposes (paragraph 6.51), and $10 million for computer equipment including servers in offices of returning officers. It made about 3.3 million revisions to the lists.

6.45 Under the *Canada Elections Act*, voter information cards must be mailed to voters within 24 days of the election being called. The purpose of the card is to inform voters that they are registered on the preliminary lists of electors and provide information on how, when, and where to vote. One week later, a reminder card is sent to all households to advise voters on how to follow up if they have not received a voter information card. Elections Canada also conducts targeted revision activities (door-to-door registration). As a final measure, the *Canada Elections Act* allows for registration at advance polls and on election day.

6.46 Overall, we found that Elections Canada supported voters well by communicating information on registration and on how they could revise their personal information on the preliminary lists of electors. In our view, the measures in place facilitated access to the electoral process.

6.47 Elections Canada spent almost $5 million on door-to-door registration in 2004. The main purpose of these activities is to reach voters not registered at their current address. Therefore, the activities are concentrated in selected neighbourhoods where there is a higher probability that voters are not registered at their current address, such as new subdivisions, student residences, or areas with highly mobile residents. In 2004 officials visited 780,000 more addresses, completed 74,000 more revision forms, and left 140,000 more forms for residents who weren't at home than in 2000 (Exhibit 6.4). However, Elections Canada does not know how many voters later completed and returned these forms. Nevertheless, these results indicate that the completeness and accuracy of the National Register of Electors is improving significantly. Given the cost of targeted revision, it would be important for Elections Canada, in determining the extent of use in the future, to assess the cost-effectiveness of this method relative to other types of revision activities.

6.48 Once preliminary lists of electors have been produced, the returning officers are responsible for revisions to the lists during the election period. A computer application called REVISE captures revisions to the lists of electors during the election period. REVISE was developed prior to the 2000 general election at a cost of $4.6 million, and it was subsequently upgraded in 2001 and 2003, at a cost of $6.5 million. Elections Canada maintains REVISE outside the National Register of Electors. After the election, Elections Canada staff upload revisions to the Register.

6.49 We noted that using two separate systems has created a number of problems. Because of some incompatibilities between the two systems, staff couldn't upload almost 250,000 records. Elections Canada staff needed to review most of these records before updating the Register. Elections Canada informed us that staff completed their review by the end of April 2005, 10 months after the election.

6.50 In our view, Elections Canada could benefit from assessing other options to the use of REVISE.

6.51 **Communication with voters.** Elections Canada devotes significant efforts to communicating with voters. It developed a communication approach where various types of communication are used to achieve different purposes. For the 2004 general election, it spent $24.5 million on such activities, not including the cost of voter information cards ($14.9 million), which it classifies as a cost of revising the preliminary lists of electors.

Exhibit 6.4 Targeted revision statistics

Targeted revision	2004	2004 (percentage)	2000	2000 (percentage)	Variance
Addresses where revisions were required—forms completed	266,000	21%	192,000	37%	74,000
Addresses where there was no answer—forms left	289,000	22%	149,000	29%	140,000
Addresses confirmed	740,000	57%	174,000	34%	566,000
Total addresses visited	**1,295,000**	**100%**	**515,000**	**100%**	**780,000**

Source: Elections Canada—Reports filed by returning officers (not audited)

6.52 Voter information cards provide information on how, when, and where to vote. Print and media advertising campaigns, in multiple languages, account for about half of the total communication expenses. They provide useful information to electors, such as advance polling dates, and encourage them to exercise their right to vote. Other key communication tools include Elections Canada's Web site, a voter information service (combined toll-free voice response system and Web service) that operates around the clock during the election period, community relations officers that are responsible for reaching voters at the community level, and election information guides in many languages.

6.53 Elections Canada has developed a separate plan for each type of communication, based on its experience and research in voter behaviour and communication methods. A steering committee co-ordinates and recommends all communications activities for approval. Elections Canada has also developed a proposed framework for its strategic communications plan. However, this document needs to be updated and finalized in order to provide an overall framework to guide its various communications activities. Elections Canada has also developed a number of performance indicators and collects information through various means, such as post-election surveys and analysis of statistics, to evaluate the effectiveness of its communications initiatives. However, there are very few targets against which it can measure their success.

6.54 We noted that there is an inherent degree of overlap among the various types of communications used during an election period. This overlap is often part of planned communication strategies. However, given the magnitude and costs of its communication activities, Elections Canada could benefit from a comprehensive and integrated assessment of the cost-effectiveness of its communications activities. This could help it determine the relative impact of its various types of communication and decide whether to try a different approach, as well as provide useful information in planning for the next general election.

6.55 **Providing voters with flexibility.** Elections Canada offers voters a variety of voting opportunities and has safeguards built-in to the voting process. Voters can vote on election day at a regular poll or a mobile poll, during three days of advance polls, or by special ballot through the mail. Exhibit 6.5 provides voting statistics by voting method for the 2004 general election.

6.56 Elections Canada has control processes in place to ensure that offering this flexibility, as well as allowing voters to register on election day, does not compromise the integrity of the electoral process. The control processes provide that the names of voters who register for a special ballot or vote at advance polls are crossed off the lists of electors on election day. Further, once the election is over, Elections Canada conducts post-election analysis to ensure that electors did not vote more than once.

Exhibit 6.5 Voting statistics by method of voting — 2004 general election

Method of voting	Valid ballots cast	Percentage of total valid ballots cast
Election day	12,070,222	89%
Advance polls	1,248,469	9%
Special ballot	246,011	2%
Total	**13,564,702**	**100%**

Source: Elections Canada

6.57 **Recommendation**. Elections Canada should

- assess the cost-effectiveness of its targeted revision activities,
- consider other options to REVISE, and
- evaluate the effectiveness of its communication strategy.

Elections Canada's response. The Chief Electoral Officer's recent report to Parliament recommends that revising agents should no longer have to work in pairs while performing targeted revision, a measure that would reduce by half revising agents' fees, related training costs, and travel allowances. Based on the 2004 general election, this would amount to a reduction of some $2.4 million in the cost of targeted revision. The Chief Electoral Officer has also recommended that there be increased flexibility regarding the registration of electors who are absent when a revising agent visits their residence. That is, the elector answering the door would be able to register other eligible electors residing there, without having to provide proof of identification for them. This would increase registration rates at no additional cost.

Elections Canada has already initiated a project to conduct a complete review of its voter registration processes. Data management and systems for lists of electors will also be examined in light of current technological advances.

The advertising campaign for the 2004 general election was developed on the basis of the assessment of the campaign used for the 2000 election and the feedback it generated from parliamentarians and others, as well as the evolving strategies for outreach to target groups. As no negative feedback was received on the 2004 campaign, the Chief Electoral Officer decided that Elections Canada would use the same communications program for the next general election. This decision enabled the agency to be ready with a tested program generating significant savings. In accordance with this recommendation, Elections Canada will undertake a review of the campaign after the next general election.

Elections Canada assists and provides extensive support to returning officers

6.58 **Assisting returning officers in maintaining their readiness for an election call.** Returning officers prepare for and conduct elections in their electoral district and must be ready to assume their responsibilities at any time. When the position of a returning officer becomes vacant, the Governor in Council appoints a replacement.

6.59 Elections Canada does a good job helping returning officers to stay ready for an election. Once Elections Canada is notified that the Governor in Council has appointed a returning officer, the organization contacts the officer and provides orientation materials. Returning officers may also draw on a comprehensive training program, a large number of operations manuals, and useful planning tools to ensure that they are ready for an election.

6.60 The *Canada Elections Act* sets a limit of 60 days to fill vacancies through appointments. We found that appointments are not always made within the prescribed time limit.

6.61 Elections Canada raised concerns about the ability of some returning officers to perform their duties. Based on competency tests from 2002 and 2003 and performance assessments prepared after the 2000 general election, Elections Canada determined that some returning officers were not fully qualified for their positions. We interviewed a number of stakeholders who also raised this point.

6.62 **Supporting returning officers in delivering elections.** Elections Canada provides extensive support to returning officers and their election staff. The organization maintains ongoing communication with returning officers and has a help line dedicated to returning officers and their staff, with 120 advisors on call to help resolve problems. For the 2004 general election, Elections Canada hired 24 field liaison officers to work directly with returning officers.

6.63 Elections Canada's management team monitors the status of preparations at the electoral district level on a daily basis. Its Event

Management Framework is centred around daily Executive Committee meetings. A computerized event management system provides daily exception reports that identify returning officers who have not met established deadlines, targets, or statutory obligations for event readiness. The information is used to help those returning officers.

6.64 After an election, Elections Canada prepares performance assessments to help returning officers do their jobs better. Elections Canada also solicits feedback from returning officers.

6.65 To ensure that returning officers and election staff act fairly and impartially, Elections Canada follows up on concerns that its daily monitoring identifies. Staff also investigate all complaints from voters, candidates, and other stakeholders about the behaviour of election officials.

Controls are in place to monitor compliance with the *Canada Elections Act*

6.66 The *Canada Elections Act* requires that political entities register with Elections Canada to access benefits the Act provides. With the introduction of Bill C-24, which became effective 1 January 2004, political entities now include political parties, candidates, electoral district associations, and nomination and leadership contestants. All third parties incurring election advertising expenses of $500 or more must also register.

6.67 The *Canada Elections Act* contains a number of provisions aimed at ensuring the fairness and transparency of elections. Monitoring compliance with and enforcing the Act are essential to maintaining public trust in the electoral process.

6.68 For example, the Act limits contributions and election expenses and establishes disclosure requirements. It also precludes voters from voting twice, bars election officers from committing partisan acts, and prohibits the use of personal information from the National Register of Electors and advertising on election day.

6.69 Under the *Canada Elections Act*, registered political parties and candidates that meet eligibility requirement are entitled to receive partial reimbursement of their election expenses. They can also issue tax receipts for contributions. Political parties also benefit from quarterly allowances that are based on the number of votes they received in the last general election. For 2004, political parties received about $22 million in allowances. Political parties and candidates will be reimbursed a total of about $57 million—$31 million to political parties and $26 million to candidates. Political entities (there are minimum thresholds for nomination contestants and third parties) must submit a financial return to Elections Canada within a prescribed time period to demonstrate compliance with the Act.

6.70 A number of control mechanisms are in place to ensure compliance with the Act, including

- the monitoring of returning officers' activities;
- post-election analysis on duplicate voting;
- investigation of complaints from various stakeholders and the public;
- the requirement that most financial returns be accompanied by an auditor's report on whether they fairly present the information contained in the records on which the returns are based;
- Elections Canada's audit and review of the returns;
- the requirement for candidates and official agents to sign declarations; and
- public disclosure, on Elections Canada's Web site, of all returns, allowing political entities, other stakeholders, and the public to scrutinize each other's returns.

These controls are aimed at providing reasonable assurance that political entities are complying with the Act. However, it is important to note that controls can never provide absolute assurance that instances of fraud or error have not occurred.

6.71 The *Canada Elections Act* addresses a number of offences associated with deliberate attempts to circumvent contribution limits and disclosure rules, or to make a false declaration. The Commissioner of Canada Elections may also decide to initiate investigations of potential violations of the Act. Offenders may be prosecuted.

6.72 **Review of financial returns.** Elections Canada is responsible for ensuring that financial returns comply with the various provisions of the Act and for reviewing and processing reimbursements for eligible election expenses and auditors' subsidies, which are based on the amount of eligible election expenses. Reimbursements to candidates are made in a two-step process. In July 2004, initial reimbursements, totalling about $10 million, were made to all eligible candidates—those who received at least 10 percent of the valid votes in their riding. Final reimbursements, which are based on information contained in the candidates returns, are processed once the review of the candidates' returns have been completed. Following the 2004 general election, over 400 candidate returns were not received by the filing deadline of 28 October 2004 and were granted extensions.

6.73 The *Canada Elections Act* requires political parties and candidates to submit an auditor's report with their returns and provides for subsidies to candidate's auditors to cover a portion of the audit cost; such subsidies will amount to $1.3 million for the 2004 general election. The Act also requires candidates to submit supporting documentation with their returns; political parties do not have to do so. Consequently, Elections Canada must place reliance on auditors' reports for returns of political parties.

6.74 According to section 465 of the *Canada Elections Act*, the Chief Electoral Officer must be satisfied that all candidates and their official agents have complied with specific sections of the Act. Consequently, all returns filed by candidates are reviewed to verify, to the extent possible, that they comply with the requirements of the Act. According to Elections Canada, the review of the supporting documentation provided by candidates allows accurate payments for reimbursements and audit subsidies and identifies potential and actual non-compliance situations that would not have been discovered by the candidate's auditor. This enables Elections Canada to provide information to the official agent of the candidate on measures that could be taken to correct the non-compliance situation, where possible, such as amending the return to correct an error or omission, or returning ineligible contributions.

6.75 We examined the review process carried out by Elections Canada for 35 candidates' returns and 5 political parties' returns. We found that Elections Canada staff followed the process consistently in every case.

6.76 The review of financial returns for candidates requires considerable effort. For the 2004 general election, Elections Canada received 1,686 returns from candidates, of which 837 were eligible for reimbursement. By 31 March 2005, five months after the filing deadline, Elections Canada had reviewed 256 of these returns. The 581 returns awaiting review represented about $15 million in unpaid reimbursements. Of the 849 candidate returns that were ineligible for reimbursement, 205 had been reviewed. Finally, 267 of the 417 returns from third parties and people running for nomination, as a candidate or leader of a political party, had been reviewed. However, we noted that the review of the 12 returns from political parties had been completed quickly.

6.77 **Enforcing the Act.** The Commissioner of Canada Elections is responsible for ensuring that the *Canada Elections Act* is complied with and enforced.

6.78 Elections Canada carries out a number of activities to identify potential non-compliance and directs its concerns to the Commissioner of Canada Elections. The Commissioner also receives correspondence and complaints directly and may decide to initiate an investigation.

6.79 During an election period, the Commissioner may apply for a court injunction in cases where a suspected breach may compromise the fairness of the election. Other options for enforcement include compliance agreements and prosecution.

6.80 To investigate suspected violations, the Commissioner has developed a comprehensive investigation process that complies with the Act and uses trained and experienced investigators to carry out the investigations. We reviewed the investigation process for 41 investigations and found that the Commissioner's office followed it consistently.

Delivering public education programs

6.81 The *Canada Elections Act* gives the Chief Electoral Officer a mandate to deliver public education and information programs. These programs enhance understanding of the federal electoral process and help eligible voters exercise their right to vote, particularly those for whom voting may be difficult. While complementary to the various means of election communication (informing voters on how, when, and where to vote, and how to revise their information on the lists of electors), the public education programs are broader in scope and are intended to produce mid-and long-term impacts.

Elections Canada has targeted groups to reach to increase voter participation

6.82 Based on its post-election evaluation, research, analysis, and consultations, Elections Canada has identified groups of voters it wants to reach with public education and information programs. They include youth, Aboriginals, ethno-cultural groups, and people with special needs.

6.83 Elections Canada's action plans list and describe the various initiatives it will undertake to meet specific objectives, key milestones, and its budget. Although Elections Canada conducts surveys and discussion groups to assess the performance of various initiatives once they are completed, the action plans do not include targets that would allow the organization to measure its performance against expectations and determine the level of success of its initiatives.

6.84 In February 2004, the House of Commons reaffirmed the importance of this aspect of Elections Canada's mandate when it passed the following resolution:

> That the House direct the Chief Electoral Officer and Elections Canada to expand its initiatives to promote the participation of young Canadians in the electoral process, and that these initiatives include making available educational materials to schools and other organizations, and supporting parallel voting opportunities for prospective electors during federal elections, including making available polling materials and the publication of results of such parallel voting, and that Elections Canada work creatively with such groups as Kids Voting Canada, Scouts Canada, Guides Canada, teachers and others, and provide regular reports on these matters to the House of Commons through the Standing Committee on Procedures and House Affairs.

6.85 For the 2004 general election, Elections Canada undertook a number of initiatives to expand its activities aimed at increasing the participation of young Canadians in the electoral process. These included, for example, Student Vote 2004, a program that provided students under 18 years of age the opportunity to experience the federal electoral process through a parallel election in their schools. Elections Canada also participated with an outside partner in developing a teacher's guide for Youth Vote 2004, an education and media program that offered high schools students the opportunity to participate in weekly on-line voting on various issues throughout the 2004 election period. Elections Canada intends to report on these initiatives in its 2004–05 Performance Report to Parliament.

Performance measurement and reporting

6.86 Clear measurement and reporting of performance are essential to ensure accountability to parliamentarians and Canadians. Performance information is also essential if Elections Canada is going to make sound decisions about how to manage itself to produce expected results.

The core elements of a good performance measurement framework are in place

6.87 Elections Canada has developed a number of mechanisms and tools to measure the performance of its activities. It collects and analyzes performance information through various means. Overall, we found that the core elements of a good performance measurement framework are in place.

6.88 Elections Canada conducts extensive evaluations after each general election. The results of these evaluations identify areas for improvements in service delivery and election management. The results are also used to make suggestions for improving the federal electoral process and the *Canada Elections Act*. Elections Canada also undertook a number of assessments of its programs and projects, including the evaluation of some new initiatives since the 2000 general election, such as the introduction of field liaison officers and outreach activities targeted at youth.

6.89 Elections Canada has set performance expectation targets and developed performance indicators to monitor and assess the performance of its election delivery. Its Event Management System contains extensive information on the progress of key activities that need to be carried out to deliver an election, both in the 308 electoral districts and at national headquarters. The information is used after the election to assess overall performance in delivering an election and to identify areas for improvement.

6.90 Elections Canada has established performance targets and quantitative and qualitative performance indicators for some of its ongoing activities, including targets for the coverage and accuracy of the National Register of Electors, the reach of its advertising campaign, and participation in its youth outreach programs. In our view, there are still opportunities for improvement, particularly in communication and public education programs, and we encourage Elections Canada to continue its efforts in this area.

6.91 **Recommendation.** Elections Canada should enhance the quality of its performance measures and ensure that performance targets and indicators are in place for all of its key activities.

Elections Canada's response. Elections Canada will continue to build on its experience and expertise in establishing comprehensive performance indicators for election readiness and delivery activities, to determine and refine targets and indicators for its ongoing programs, particularly its advertising campaign and its voter education and outreach programs for youth, Aboriginal communities, ethnocultural groups, and people with disabilities.

Reporting on future strategic direction needs to be enhanced

6.92 Elections Canada provides annual reports to parliamentarians on its plans, priorities, and performance. The Chief Electoral Officer is required by legislation to submit additional reports to Parliament on the administration of a general election and on recommendations for amendments to the *Canada Elections Act*.

6.93 These documents contain extensive information on the activities of Elections Canada and on the federal electoral process. However, they do not clearly show how activities and proposals are linked to long-term strategic goals and objectives. In our view, the information in all these documents needs to be better integrated.

6.94 The annual reports on plans and priorities identify Elections Canada's purpose, external risks and challenges, strategic outcomes, and specific priorities. However, in our view, Elections Canada needs to better communicate its future direction with more strategic information on the resources that it will need and how it will measure its success. We also noted that Elections Canada's most recent strategic plan covers the period ending in 2001–02. Updating this plan is essential to set and communicate its future direction.

6.95 Elections Canada informs Parliament about its performance through its annual performance report. The Chief Electoral Officer also produces a post-election report to provide Parliament with information on election performance and on Elections Canada's activities since the previous report.

6.96 We reviewed the performance reports for the last four years and the Chief Electoral Officer's report on the 2004 general election. The information was clearly presented and the performance targets reported were clear and concrete. However, a number of achievements were expressed in terms of how many activities or initiatives were completed, rather than the extent to which the initiatives were successful. As already noted, establishing performance targets for all key activities would help to assess the progress made in achieving intended objectives.

6.97 We also reviewed the Chief Electoral Officer's report following the 2004 general election on suggestions for change to the electoral legislation. Elections Canada had thoroughly analyzed the weaknesses in the legislation.

6.98 **Recommendation.** Elections Canada should enhance its reporting to Parliament on its future strategic direction and on the progress made in achieving its objectives.

Elections Canada's response. Elections Canada has already undertaken to update its strategic plan. In future appearances before Parliament, the Chief Electoral Officer will continue to draw linkages between the strategic direction of the agency, recommendations to amend electoral legislation to improve the electoral process, and the actual performance of the organization between and during elections.

Financial and human resources management

Financial resources are managed in accordance with relevant authorities

6.99 In our review of Elections Canada's control over procurement and expenditures, we noted no significant weaknesses in controls. The transactions we reviewed complied with relevant Treasury Board policies and the *Financial Administration Act*.

6.100 In 2003, Elections Canada assessed its financial management control framework and found that the framework contributes to ensuring compliance with the relevant authorities. It has developed an action plan to address some of the recommendations from the assessment. We found that some of the recommendations have been implemented and others are under way.

6.101 Internal audit is a key element of corporate governance. It assures senior managers that key financial, administrative, and operational activities are efficient and effective. Internal auditors may also suggest improvements. We noted that Elections Canada has an internal audit function and an audit committee. The audit committee is composed of the Chief Electoral Officer, the Deputy Chief Electoral Officer, the Senior Director—Electoral Financing, Audit and Reporting, one member of the Executive Committee (on a rotational basis), and the Director—Political Financing and Audit. An emerging best practice in the public sector is to include one or more members who are not officers or employees of the organization—something that Elections Canada may want to consider.

6.102 We noted that internal audit has conducted or commissioned a number of internal audit projects in recent years. It has also conducted a risk-assessment for the purpose of preparing a new internal audit plan, and proposed revisions to Elections Canada's internal audit policy. Management informed us that the composition of the audit committee will be re-assessed, and that the internal audit plan and the internal audit policy will be finalized following the completion of a government-wide review of internal audit by the Treasury Board Secretariat.

Human resources planning needs to be formalized

6.103 We reviewed Elections Canada's systems and practices for planning and managing its human resources, including its human resources policies, its Human Resources Information System (HRIS), and its analysis and use of the information provided by the system.

6.104 Overall, Elections Canada has good practices in place for managing its human resources. However, it needs to formalize its planning for human resources.

6.105 Elections Canada tracks very little information on its performance in managing its human resources. A human resources information system that is more robust and more closely suited to the needs of Elections Canada would help produce relevant and timely information for decision-making purposes. By establishing key indicators for managing human resources and tracking information on performance, Elections Canada would be in a better position to assess trends and determine important human resources issues.

6.106 Term employees form a key component of Elections Canada staff. Exhibit 6.6 summarizes the number of permanent (indeterminate) and term employees over the last several years.

6.107 As mentioned in the Introduction, salaries of permanent employees are funded through an annual parliamentary appropriation, and salaries of term employees are funded through the statutory authority. To increase its complement of permanent employees, Elections Canada requires an increase in its annual appropriation level. This happened twice in the last several years. In May 2000, it obtained approval for a permanent increase of $10.1 million in its parliamentary appropriation to convert 156 term positions to permanent positions. Elections Canada indicated at the time that it would continue to need term employees for specific, temporary activities related to elections. In 2001–02, this represented about 100 term employees. In February 2004, Elections Canada obtained approval for an additional increase of $8.5 million in permanent funding to convert 85 term employees to permanent positions and to create 35 new positions. These 35 positions were related to implementing the financial provisions of Bill C-24 and the 85 converted positions were to meet Elections Canada's commitments to Parliament to improve its services to the public, parliamentarians, partners, and other stakeholders.

Exhibit 6.6 Permanent (indeterminate) and term employees at Elections Canada

	1997–98*	1998–99	1999–2000	2000–01*	2001–02	2002–03	2003–04	2004–05*
Permanent	52	49	49	78	191	194	200	269
Term	227	177	179	287	100	146	152	117
Total	**279**	**226**	**228**	**365**	**291**	**340**	**352**	**386**

* General election year

Source: Elections Canada

6.108 In our view, Elections Canada needs to formalize its planning for human resources. Although some elements of a human resources plan are in place, the information is fragmented. In particular, the organization needs to ensure that the tenure of positions is well defined before it initiates staffing action.

6.109 Finally, we noted that, as in other public service organizations, an aging population is a current issue in Elections Canada. Succession planning is needed to ensure that people with the necessary knowledge, skills, and experience are available when needed and that corporate knowledge is not lost when employees leave the organization.

6.110 **Recommendation**. Elections Canada should

- develop and implement a human resources plan and a succession plan that are linked to its long-term strategic direction and objectives, and
- establish key performance indicators and obtain information on its performance for the management of human resources.

Elections Canada's response. Elections Canada's human resources plan will be formalized in the context of the *Public Service Modernization Act*, while continuing to meet the requirements of the *Public Service Employment Act* and the *Canada Elections Act*. This plan will be linked to the agency's strategic plan and integrated with the annual business planning cycle.

Elections Canada will also review its key performance indicators in the area of human resources management and establish additional indicators in accordance with the needs of the agency.

Conclusion

6.111 Elections Canada plans, manages, and administers the federal electoral process well, according to applicable authorities. It has good planning systems and practices in place to ensure that it will be ready to deliver an election when one is called. It regularly updates its information on geography and eligible voters, and it conducts additional activities during the election period to obtain the information it needs to prepare the lists of electors.

6.112 Elections Canada provides good assistance and support to returning officers to maintain their readiness for an election call and to deliver elections. It ensures access to the electoral process for all eligible voters by helping them revise their personal information on the lists of electors; communicating important information on how, when, and where to vote; and providing flexible opportunities to vote. It also delivers a number of public education and information programs aimed at enhancing the understanding of the electoral process and reaching out to groups of electors whose participation rate has been historically lower than the national average.

6.113 Elections Canada plays a key role in supporting the fairness and transparency of the electoral process by registering political entities and monitoring their financial activities, monitoring the activities of returning officers and election staff, and ensuring compliance with the *Canada Election* Act. It also conducts extensive post-event assessments and works with Parliament and other stakeholders to improve the electoral process.

6.114 Our audit has highlighted opportunities to improve efficiency in certain aspects of Elections Canada's activities. Elections Canada needs to pursue its current efforts and explore additional ways to improve the efficiency of the collection and management of information on geography and eligible voters, on a government-wide and multi-jurisdiction basis.

6.115 Elections Canada has set some performance expectation targets and developed some performance indicators to assess the performance of its key activities. It also provides extensive information to Parliament on its activities and on the federal electoral process. It is important that the organization continue its efforts to improve the quality of its performance measures, particularly for communication and public education programs. It also needs to enhance its reporting to Parliament on its strategic direction and on the progress made in achieving its objectives.

6.116 Finally, we noted no significant weaknesses in controls for procurement and expenditures. Some improvements in its human resources planning practices and information systems will benefit Election Canada's current operations and help the organization plan more effectively for the future.

About the Audit

Objectives

The objectives of the audit were to determine whether Elections Canada

- adequately plans, manages, and administers the federal electoral process;
- manages its activities and resources in accordance with the *Canada Elections* Act, the *Electoral Boundaries Readjustment* Act, the *Privacy* Act, the *Financial Administration* Act, and other relevant Treasury Board policies and guidelines;
- identifies areas for improvement in the federal electoral process and the *Canada Elections* Act and takes action to address them; and
- adequately measures performance and reports results.

Scope and approach

We examined Elections Canada's activities to prepare for and deliver elections and to improve the electoral process. We also examined its public education and information programs and the way Elections Canada is managed.

We carried out extensive interviews with Elections Canada's staff and a variety of stakeholders. We reviewed legislation, program documents, scope and briefing notes, minutes of executive and advisory committee meetings, financial information, studies and evaluations, public communications, review files, and investigation files. We also met staff who deliver provincial elections in British Columbia, Alberta, Manitoba, Ontario, and Quebec.

Our audit examined Elections Canada's activities for general elections. It did not include by-elections or referendums. Further, we did not examine the actual delivery of elections—that is, we did not audit the activities of returning officers and their staff during the election period or on election day. Therefore, we cannot comment on election delivery. Finally, we did not examine the activities of the Broadcasting Arbitrator.

Criteria

We expected that Elections Canada would have a plan to manage and administer the federal electoral process that

- respects relevant authorities, such as the *Canada Elections* Act, the *Electoral Boundaries Readjustment* Act, and the *Privacy* Act;
- ensures constant election readiness;
- considers business risks, including technological risks, to ensure the successful delivery of an election;
- ensures all eligible voters have access to the system;
- ensures the fairness and transparency of the electoral process; and
- respects principles of economy and efficiency.

We also expected that Elections Canada would

- establish and maintain adequate management controls over financial and human resources and monitor their effectiveness;
- respect relevant authorities, such as the *Financial Administration Act* and other Treasury Board policies and guidelines;
- work with Parliament and other stakeholders to improve the federal electoral process and monitor progress; and
- maintain clear and concrete strategic outcomes and performance expectations, report credible and balanced performance results against these expectations, and use its performance information to improve the administration of the federal electoral process and to promote good accountability to Parliament.

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Appendix A Other key players in planning and delivering an election

Returning officers. One returning officer is assigned to each of the 308 electoral districts (or ridings) in Canada. The political party in power nominates returning officers, and the Governor in Council appoints them. Returning officers, with the help of an assistant returning officer, prepare and conduct the election in their electoral districts, under the direction and supervision of the Chief Electoral Officer. The Governor in Council may only remove returning officers for just cause. Elections Canada pays returning officers a fixed rate, based on regulation, when they are working on the election. Between elections, they receive a stipend. A returning officer's official duties begin when the writs are issued, and those duties must be completed within 36 days. On average, a returning officer manages about 55 people in the returning office, hires and trains between 500 and 600 staff for election day, and manages a budget of about $350,000. Returning officers are responsible for conducting the election in their electoral districts in a way that ensures the fairness and integrity of the election. Elections Canada directs, supervises, and guides returning officers, and monitors the way they prepare for and conduct elections.

Deputy returning officers and poll clerks. There are about 58,000 polling divisions in the 308 electoral districts. Each division has one deputy returning officer responsible for all ballot-related activities, such as giving voters their ballots, and one poll clerk responsible for activities related to the polling division's List of Electors, such as finding the voter's name on the list. Elections Canada pays deputy returning officers and poll clerks to work on election day and at advance polls.

Commissioner of Canada Elections. The Chief Electoral Officer appoints the Commissioner of Canada Elections to enforce the *Canada Elections Act* and the *Referendum Act*. The Commissioner investigates suspected non-compliance and may decide to prosecute violators. Prosecutions take place through Canada's normal court process, without the Attorney General's involvement, thus maintaining the non-partisan electoral process.

Federal electoral boundaries commissions. The *Constitution Act, 1867* and the *Electoral Boundaries Readjustment Act* call for representation in the House of Commons to be adjusted after each decennial (10-year) census, to reflect changes and movements in Canada's population. The Governor in Council creates a federal electoral boundaries commission in each province to consider and report on changes to the electoral district boundaries. The most recent adjustment was completed in 2003 and became effective in 2004, for the 2004 general election. Elections Canada provides support services to the boundaries commissions except in the Northwest Territories, Yukon, and Nunavut, each of which constitutes only one electoral district and thus requires no boundaries commissions.

Broadcasting Arbitrator. The Chief Electoral Officer appoints a Broadcasting Arbitrator for the next election event, six months after the previous election. The Broadcasting Arbitrator allocates paid and free broadcasting time for political parties during a general election, according to a formula set out in the Act. The Broadcasting Arbitrator also arbitrates disputes between political parties and broadcasters during a general election. The scope of this audit did not include the activities of the Broadcasting Arbitrator.

Appendix B Voting process on election day

Arriving at the polling place

Voters may arrive at polling places at various times across Canada:

• Atlantic or Central time zone	8:30 a.m. to 8:30 p.m.
• Eastern time zone	9:30 a.m. to 9:30 p.m.
• Mountain time zone	7:30 a.m. to 7:30 p.m.
• Pacific time zone	7:00 a.m. to 7:00 p.m.

At the polling station

- The voter declares his/her name and address to the DRO.
- The PC locates the voter's name on the List of Electors and crosses it out. If the name is not on the list, the voter must register before continuing to vote.
- The DRO removes a ballot from a booklet, making sure that his/her initials are on the back of the ballot.
- The DRO folds the ballot twice and provides it to the voter.
- The voter goes behind the voting screen and selects a candidate by marking the ballot in the space provided. The voter re-folds the ballot in the same way and returns it to the DRO.
- Without unfolding the ballot, the DRO checks the initials and serial number to make sure that it is the same ballot provided to the voter.
- The DRO removes the counterfoil from the ballot and places it in a small plastic bag.
- The DRO returns the ballot to the voter, who then places it in the ballot box.
- The PC places a check mark in the column entitled "voted" beside the person's name on the List of Electors.
- Candidates' representatives observe the process and challenge when necessary.

Registration

In order to vote, a voter must be registered. If a voter is not registered, there are three options:

1) A voter whose name is registered (that is, on the list) may vouch for the identity of the voter who is not registered. Both voters must take an oath, which is recorded by the PC. The DRO can then issue a registration certificate.
2) A DRO may issue a registration certificate if the RO has designated the DRO to receive and assess proof of identity and residence.
3) The voter proceeds to the registration desk to obtain a registration certificate. Appropriate identification is required.

Counting the ballots

- The counting of ballots should begin immediately after the polling place closes. At least two people should be there to witness; however, the count may proceed if they are not. Candidates and no more than two candidate representatives may observe the counting procedure.
- The PC counts and records the number of voters that voted.
- The DRO counts the number of spoiled ballots, and they are placed inside an envelope.
- The DRO counts the number of unused ballot papers.
- To ensure that all ballot papers have been accounted for, the PC adds the number of voters who have voted, spoiled ballots, and unused ballot papers. The total should equal the number of ballots supplied.
- The DRO opens the ballot box and empties it on a table.
- The DRO must count the ballots in a manner that anyone present can see how each ballot is marked. The DRO must unfold one ballot at a time, and make sure that his/her initials are on the back, call out the selected candidate's name, and show it to any candidate's representatives who are present.
- The PC makes a mark under the candidate's name on the tally sheet, for each time the name is called out.
- On the Statement of the Vote, the DRO enters the number of votes cast for each candidate, the number of rejected ballots, and the seal number used to seal the ballot box after the count.
- Tally sheets and ballot boxes are collected and sent to the RO.

CEO	Chief Electoral Officer
RO	Returning officer
DRO	Deputy returning officer
PC	Poll clerk

Appendix C Special Voting Rules

The Special Voting Rules, part 11 of the *Canada Elections* Act, provide for Canadians to cast a ballot by mail from virtually anywhere in the world. The Special Voting Rules apply to five categories of voters:

- Canadian Forces voters;
- Incarcerated voters;
- Canadian citizens temporarily residing outside Canada for fewer than five years (international voters);
- Resident Canadians temporarily outside their electoral district, either inside or outside Canada (national voters); and
- Resident Canadians inside their electoral district (local voters).

Under the provisions of the Special Voting Rules, voters must

- obtain an Application for Registration and Special Ballot form;
- return this application form to the appropriate returning officer or to Elections Canada, as appropriate, before 6:00 p.m. on Day 6; and
- obtain the names of the candidates in their electoral district to cast a vote.

Voters must return their special ballots so they are received no later than

- 6:00 p.m. on election day (Day 0) at Elections Canada (received from the Deputy Returning Officer from Canadian Forces voters after voting between Day 14 and Day 9);
- 6:00 p.m. on election day at Elections Canada (received from the Deputy Returning Officer from incarcerated voters after voting on Day 10);
- 6:00 p.m. on election day at Elections Canada (received directly from national and international voters); and
- close of the polls of their electoral district on election day (local voters).

Appendix D Process for counting ballots

Advance polls

- Polls occur for three days, one week before polling day.
- The statement of the votes and the ballot box are sent to the RO.
- Votes are not to be counted until the close of polling stations on election day (S. 289(3)).

Mobile polls

- Subject to the instructions of the CEO, provisions that relate to ordinary polls shall, insofar as they are applicable, apply to mobile polling stations (S. 125 (4)).

Election day

- Tally sheets and ballot boxes are collected by the DRO and sent to the RO.

Special ballots

- Special ballots are provided for voters outside Canada, Canadian Forces voters, incarcerated voters, and those residing in Canada who may experience difficulties on polling day.
- Counting of votes occurs under the supervision of the Special Voting Rules Administrator, by at least two special ballot co-ordinators representing different registered parties.
- The officers provide the administrator with a Statement of the Vote.
- Immediately after the votes are counted, the administrator provides the CEO with the number of votes counted for each candidate for every electoral district, the total number of votes counted for each electoral district, and the number of rejected ballots for each electoral district.
- Special ballots are counted at Elections Canada on the fifth day before election day, unless the CEO has specified another date (S. 266).
- Immediately after the close of the polling stations, the CEO informs the RO of the count of the special ballot vote. The RO adds them to the special ballots that have been counted (S. 280).

Validating results by the RO

- On receiving each ballot box, the RO examines and records the condition of the seal; after receiving all ballot boxes, the RO validates the results with the Assistant RO.
- Results are to be validated no later than seven days after election day.
- After validating the results, the RO provides the CEO with a certificate that indicates how many votes each candidate received.
- Ballot boxes are disposed of following the close of the election following the direction of the CEO (S. 298).

CEO	Chief Electoral Officer
RO	Returning officer
DRO	Deputy returning officer
S	Section of *Canada Elections Act*

Appendix E List of recommendations

The following is a list of recommendations found in Chapter 6. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Department's response
Preparedness for an election call	
6.41 Elections Canada, in collaboration with other public sector organizations, should pursue its efforts and explore additional ways to rationalize and improve the overall efficiency of data collection and management of information on Canadians and Canadian geography. **(6.22–6.40)**	Elections Canada will continue to be a trailblazer and to provide leadership to rationalize and improve efficiency while providing the best possible service to Canadian electors. We will build on the 36 existing agreements with various federal, provincial, territorial, and municipal agencies to support voter registration. To date, data-sharing partnerships with electoral agencies have resulted in significant savings. The Electoral Technology Accord signed by all provincial and territorial chief electoral officers builds upon data-sharing partnerships and demonstrates their commitment to increased co-operation to achieve cost savings and efficiencies through common processes and services, shared data, and expertise. We will continue to maintain the National Geographic Database with Statistics Canada, as well as partner with Statistics Canada and other federal organizations to develop a common national road network through the Inter-Agency Committee on Geomatics, which is co-chaired by Natural Resources Canada and the Department of National Defence. Finally, we will pursue additional partnerships in this area with the Canada Post Corporation. In June of this year, Elections Canada launched a strategic review of voter registration, in collaboration with all stakeholders, to continue improving list quality and voter registration services. New partnership opportunities are expected to arise from this project. The Chief Electoral Officer's recent report to Parliament on proposed changes to the *Canada Elections Act* includes recommendations specifically designed to further facilitate register and geography partnerships, such as recommendation 2.20, Sharing Elector Data with Provincial Electoral Authorities for Updating Purposes, and recommendation 2.21, Sharing Neutral Address and Geographic Information.

Recommendation	Department's response
Delivering fair and transparent elections	
6.57 Elections Canada should • assess the cost-effectiveness of its targeted revision activities, • consider other options to REVISE, and • evaluate the effectiveness of its communication strategy. **(6.42–6.56)**	The Chief Electoral Officer's recent report to Parliament recommends that revising agents should no longer have to work in pairs while performing targeted revision, a measure that would reduce by half revising agents' fees, related training costs, and travel allowances. Based on the 2004 general election, this would amount to a reduction of some $2.4 million in the cost of targeted revision. The Chief Electoral Officer has also recommended that there be increased flexibility regarding the registration of electors who are absent when a revising agent visits their residence. That is, the elector answering the door would be able to register other eligible electors residing there, without having to provide proof of identification for them. This would increase registration rates at no additional cost. Elections Canada has already initiated a project to conduct a complete review of its voter registration processes. Data management and systems for lists of electors will also be examined in light of current technological advances. The advertising campaign for the 2004 general election was developed on the basis of the assessment of the campaign used for the 2000 election and the feedback it generated from parliamentarians and others, as well as the evolving strategies for outreach to target groups. As no negative feedback was received on the 2004 campaign, the Chief Electoral Officer decided that Elections Canada would use the same communications program for the next general election. This decision enabled the agency to be ready with a tested program generating significant savings. In accordance with this recommendation, Elections Canada will undertake a review of the campaign after the next general election.
Performance measurement and reporting	
6.91 Elections Canada should enhance the quality of its performance measures and ensure that performance targets and indicators are in place for all of its key activities. **(6.86–6.90)**	Elections Canada will continue to build on its experience and expertise in establishing comprehensive performance indicators for election readiness and delivery activities, to determine and refine targets and indicators for its ongoing programs, particularly its advertising campaign and its voter education and outreach programs for youth, Aboriginal communities, ethnocultural groups, and people with disabilities.

Recommendation	Department's response
6.98 Elections Canada should enhance its reporting to Parliament on its future strategic direction and on the progress made in achieving its objectives. **(6.92–6.97)**	Elections Canada has already undertaken to update its strategic plan. In future appearances before Parliament, the Chief Electoral Officer will continue to draw linkages between the strategic direction of the agency, recommendations to amend electoral legislation to improve the electoral process, and the actual performance of the organization between and during elections.
Financial and human resources management	
6.110 Elections Canada should • develop and implement a human resources plan and a succession plan that are linked to its long-term strategic direction and objectives, and • establish key performance indicators and obtain information on its performance for the management of human resources. **(6.99–6.109)**	Elections Canada's human resources plan will be formalized in the context of the *Public Service Modernization Act*, while continuing to meet the requirements of the *Public Service Employment Act* and the *Canada Elections Act*. This plan will be linked to the agency's strategic plan and integrated with the annual business planning cycle. Elections Canada will also review its key performance indicators in the area of human resources management and establish additional indicators in accordance with the needs of the agency.

Report of the Auditor General of Canada to the House of Commons—November 2005

Main Table of Contents

Matters of Special Importance—2005
Main Points—Chapters 1 to 8

Chapter 1 Royal Canadian Mounted Police—Contract Policing

Chapter 2 The Quality and Reporting of Surveys

Chapter 3 Canada Revenue Agency—Verifying Income Tax Returns of Individuals and Trusts

Chapter 4 Managing Horizontal Initiatives

Chapter 5 Support to Cultural Industries

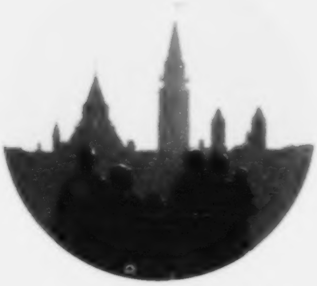
Chapter 6 Elections Canada—Administering the Federal Electoral Process

Chapter 7 Indian and Northern Affairs Canada—Meeting Treaty Land Entitlement Obligations

Chapter 8 Other Audit Observations

Appendices

2005



Report of the
Auditor General of Canada
to the House of Commons

NOVEMBER

Chapter 7
Indian and Northern Affairs Canada—
Meeting Treaty Land Entitlement Obligations

Office of the Auditor General of Canada

The November 2005 Report of the Auditor General of Canada comprises Matters of Special Importance—2005, Main Points—Chapters 1 to 8, eight chapters, and appendices. The main table of contents is found at the end of this publication.

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Chapter

7

Indian and Northern Affairs Canada

Meeting Treaty Land Entitlement Obligations

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Table of Contents

Main Points 1

Introduction 3

Canada's obligations to First Nations 3

Canada's commitments to fulfill its treaty obligations 4

Respective responsibilities under treaty land entitlement agreements 4

Treaty land entitlement agreements set out the process for converting selected land to reserve status 8

Focus of the audit 10

Observations and Recommendations 10

Converting land to reserve status 11

Limited progress has been made converting land to reserve status 11

First Nations realize tangible benefits in converting land to reserve status 12

The Department needs to clearly communicate procedures and timelines to First Nations 13

The Department's management of the process 15

Long-recognized problems with the conversion process have not been resolved 15

Updating environmental reviews is not always necessary 15

Planning land surveys results in delays 16

Resolving third-party interests needs to be given priority 17

The Department needs to address deficiencies in its management practices 20

Land selection files illustrate the need for improved management practices 20

The Department does no planning to improve the conversion rate for the remaining land selections 22

The Department does not have a centralized information tracking system 24

Monitoring and reporting of results to Parliament 25

The Department's monitoring and reporting of results is incomplete 25

Conclusion 26

About the Audit 29

Appendix

List of recommendations 31

Indian and Northern Affairs Canada
Meeting Treaty Land Entitlement Obligations

Main Points

What we examined

Indian and Northern Affairs Canada is responsible for managing the implementation of treaty land entitlement agreements on behalf of the federal government. These agreements set out how the government will provide land to First Nations that it failed to provide in accordance with treaties. We examined the Department's progress in converting land selected under the agreements to reserve status in Saskatchewan and Manitoba—the two regions with the majority of agreements—and whether the Department is managing the conversion process in a way that is consistent with its legal obligations to First Nations.

Why it's important

Treaties between the Crown and First Nations are solemn agreements that set out promises, obligations, and benefits for both parties. However, not all First Nations received the full amount of land to which historic treaties entitled them. Treaty land entitlement agreements provide those First Nations with funds to buy land or give them the right to select Crown land, or both. These agreements are modern legal commitments that recognize the government's failure to comply with its treaty obligations. Recognizing that it was taking too long—from five to seven years—to convert land to reserve status, the Minister of Indian and Northern Affairs committed in 2001 to reducing the length of time to two years.

Meeting the obligations set out in treaty land entitlement agreements within a reasonable time is important to both Canada and First Nations. By doing so, Canada honours its long-standing commitments to treaty land for First Nations, who have a strong traditional attachment to land and view it as vital to their cultural preservation and economic development. The federal government has committed over $500 million since 1992 to meet these obligations in Saskatchewan and Manitoba.

What we found

- Deficiencies in the Department's management practices—inadequate planning and an absence of targets for land conversion, for example—have limited its progress in converting to reserve status the large number of acres that First Nations have selected in both Saskatchewan and Manitoba.
- Since 1992, 58 percent of acres selected by First Nations in Saskatchewan have been converted to reserve status; only 12 percent of acres selected by First Nations in Manitoba have been converted since 1994. Furthermore, the Department has been unable to demonstrate that it has any plan in place to process remaining selections and to fulfil commitments under these agreements.
- While the terms of the agreements differ and may explain in part the different rates of progress in the two regions, in general the slow progress is due to deficiencies in the way the Department manages certain requirements in the process. Fixing some of these deficiencies is directly within the Department's control—for example, issues related to environmental reviews and land surveys, two of the processes that must take place before land can be converted. The Department has less control over other steps, such as the requirement for First Nations to resolve third-party interests, including reaching agreement with municipalities on the provision of municipal services.
- Inconsistencies in the Department's communications about what is required of First Nations to move the conversion process forward have caused frustration among First Nations. We found that, overall, the Department's communication with First Nations is limited, seldom providing information on what stage in the process a selection has reached and what steps are next. The Department does little work to fulfill its responsibility to identify First Nations that may need more assistance to meet requirements.

The Department has responded. Indian and Northern Affairs Canada agrees with the recommendations. Its detailed response follows each recommendation throughout the chapter.

Introduction

Canada's obligations to First Nations

7.1 In the 1760s, First Nations throughout southern Ontario began to exchange land ownership for money in early treaties. After Confederation, Canada and First Nations across the Prairies, parts of Ontario, the Northwest Territories, and northeast British Columbia signed 11 treaties referred to as the numbered treaties. They were intended, in part, to deal with the waves of settlers moving onto the Prairies. Treaty First Nations surrendered land to Canada and in return, Canada promised that it would reserve land for them. For First Nations, the promise of reserved land was crucial to protecting their way of life. For Canada, these treaties were important to making development possible.

7.2 Treaties are solemn agreements between the Crown and First Nations. The numbered treaties set out how much land per family was to be set aside for reserves; however, they did not specify exactly when it was to be set aside. When the treaties were signed, it was understood that First Nations and Canada were to agree on what land to set aside, and government agents were to return within a year or two to count the band population and survey the land for reserves. However, band populations were in flux in the late 1800s. Disease and the collapse of traditional food sources meant more people were on the move as they sought food. Consequently, surveyors sometimes did not include all band members in initial calculations or missed entire bands. As a result, certain First Nations did not receive land promised under treaties.

7.3 Treaties are constitutionally protected. The *Constitution Act* recognizes and affirms treaty rights. Canada has acknowledged its failure to meet treaty obligations for land, and its desire to fulfil these obligations, by signing treaty land entitlement agreements with First Nations. Although these agreements have been signed with First Nations in several regions, the majority are in Saskatchewan and Manitoba. The governments of Manitoba and Saskatchewan are also signatories to the agreements, as they are required under the 1929–30 Natural Resources Transfer Agreements to make land available to satisfy outstanding treaty obligations.

Canada's commitments to fulfill its treaty obligations

7.4 In 1992, the Saskatchewan Treaty Land Entitlement Framework Agreement was signed by 25 First Nations, Canada, and Saskatchewan to fulfil commitments made by Canada in treaties entered into between 1871 and 1906 (Exhibit 7.1). The Agreement states that "Canada recognizes that it has unfulfilled obligations in respect of treaty land entitlement in respect of the entitlement bands and is desirous of ensuring that such obligations are fulfilled." The Framework Agreement, along with four separate but similar treaty land entitlement agreements (signed between 1992 and 2000), provided about $380 million in federal compensation to 29 First Nations.

Crown land—Land transferred by Canada to the province under the 1929–30 Natural Resources Transfer Agreement.

7.5 In 1997, the Manitoba Treaty Land Entitlement Framework Agreement was signed by the Treaty Land Entitlement Committee of Manitoba (representing 19 First Nations), Canada, and Manitoba. The Agreement provides **Crown land** and funds to the 19 First Nations, fulfilling a long-standing commitment arising from treaties signed by Canada and the First Nations between 1871 and 1910 (Exhibit 7.1). The Agreement states that "Canada has recognized that the entitlement First Nations have each not received land of sufficient area to fulfil the requirements of the treaties" and that "the Treaty Land Entitlement Committee and Canada have agreed that the obligation of Canada [is] to provide land of sufficient area to each entitlement First Nation." In addition, seven other Manitoba First Nations signed separate agreements between 1994 and 1996. Total federal funding for all agreements in Manitoba was set at $126 million.

Respective responsibilities under treaty land entitlement agreements

7.6 In Saskatchewan and Manitoba, treaty land entitlement agreements set out specific responsibilities of the Department, the provinces, and First Nations. Key responsibilities of the Department include committing sufficient staff to facilitate compliance with its obligations, and undertaking environmental reviews and land survey work. First Nations are responsible for, among other things, making land selections and resolving third-party interests. The provinces' responsibilities include making Crown land available once it has been selected (Exhibit 7.2).

Exhibit 7.1 Treaty land entitlement agreements in Saskatchewan and Manitoba

	Saskatchewan		Manitoba	
Framework agreements				
Date signed	22 September 1992		29 May 1997	
Number of First Nations included	25		19	
Duration	First Nations agree to use all reasonable efforts to reach shortfall acres before the 12th anniversary of the agreement date.		No deadline is specified.	
Eligible and entitlement acres	**Shortfall acres:**	420,792	**Crown land:**	985,949
	Equity acres:[1]	1,560,417	**Other land:**	114,677
	Honour acres:	85,546	**Total acres:**	**1,100,626**
	Total acres:	**1,645,963**		
Entitlement monies ($ millions)	Settlement:	421.3	Payment:	26.8
	Mineral:	18.9	Land acquisition payment:	24.5
	Total:	**440.2**	Other:	24.7
	Provincial share (30%):	132.1	**Federal total:**	**76.0**
	Federal share (70%):	308.1		
Land acquisition costs	First Nations must pay the cost of land from settlement money transferred to them.		First Nations do not pay for Crown land they select, but must pay for other land using land acquisition money provided by the federal government.	
Individual agreements				
Provisions	Four First Nations have individual agreements. 406,161 acres $69.4 million		Seven First Nations have individual agreements. 187,613 acres $49.9 million	
Total costs for Canada for all individual agreements ($ millions)		**377.5**		**125.9**

[1] The equity acres total includes shortfall acres.

Shortfall acres—The amount of land that a First Nation should have received when its reserve was first surveyed, but did not. Under treaty land entitlement agreements, it is the minimal acreage that must be purchased and/or selected and set apart as reserve land.

Equity acres—Acres allocated under the Saskatchewan Treaty Land Entitlement Framework Agreement that are determined by an equity formula. This formula takes into account both the entitlement band's current population and its population when the band's land was first surveyed.

Honour acres—The amount of acres that a First Nation was entitled to in previous agreements (such as the 1976 Treaty Land Entitlement Agreement) that were honoured in the subsequent Treaty Land Entitlement Agreement if the 1992 formula provided acreage of a lesser amount.

Crown land—Land transferred by Canada to the province under the 1929–30 Natural Resources Transfer Agreement.

Other land—Private land that may be purchased by certain entitlement First Nations where insufficient Crown land is available for selection.

Source: Treaty land entitlement agreements and Indian and Northern Affairs Canada

Exhibit 7.2 Summary of roles and responsibilities for treaty land entitlement in Saskatchewan and Manitoba

Saskatchewan (1992)	Indian and Northern Affairs Canada	Province of Saskatchewan	Individual First Nations
General Responsibility			
Commit sufficient personnel to promptly and efficiently co-ordinate and facilitate compliance with obligations	●	●	
Use all reasonable efforts to reach shortfall acres acquisition date within 12 years			●
Process Responsibility			
Complete title search and initial Band Council Resolution on land selection			●
Act as the liaison between the First Nation and the Province	●		
Negotiate promptly to not unreasonably withhold the sale of provincial Crown land; expedite any release documentation required from any third-party interest holder that has an interest in Crown land; expedite the preparation and passage of provincial order-in-council		●	
Prepare and finalize formal submission to Additions to Reserve Committee	◓		●
Complete environmental screening and, if necessary, environmental review and cleanup	●		●
Determine survey requirements	●		●
Satisfy third-party interests			●
Obtain legal description of the land			●
Ensure written records of consultation with the province and rural municipality	◓		●
Obtain Additions to Reserve Committee recommendation and Regional Director General approval in principle of submission	●		
Complete purchase of land if have not already done so			●
Complete transfer of title to Canada			●
Carry out required boundaries survey	●		
Expedite the preparation and passage of federal order-in-council and ministerial approval	●		

● Responsible party ◓ Assists responsible party

Exhibit 7.2 Summary of roles and responsibilities for treaty land entitlement in Saskatchewan and Manitoba (continued)

Manitoba (1997)	Indian and Northern Affairs Canada	Province of Manitoba	Individual First Nations	Treaty Land Entitlement Committee[1]
General Responsibility				
Ensure appropriate personnel are assigned to fully and effectively discharge Canada's obligation	●	●		●
Provide ongoing orientation of departmental personnel to Agreement requirements to encourage and foster a positive and productive working relationship between its personnel, the Treaty Land Entitlement Committee, Manitoba, and First Nations	●	●		●
Assist the First Nations and municipalities in negotiation of issues relating to municipal development and services agreements		●		
Provide technical and professional support and assistance on a timely basis to any First Nation				●
Negotiate municipal development and services agreement as required; and remove, discharge, or accommodate third-party interests			●	●
Process Responsibility				
Conduct land selection study			●	
Conduct environmental audit	●			
Complete initial Band Council Resolution on land selection and associated documents			●	
Act as the liaison between the First Nation and the Province	●			
Canvass provincial departments and agencies and obtain response		●		
Examine land use history and conduct legal title search	●			
Prepare submission to Additions to Reserve Committee	●			
Address provincial/third-party interests and encumbrances	●		●	
Conclude services agreement with local councils		◓	●	
Estimate survey cost	●			
Complete environmental screening	●			
Complete Additions to Reserve submission	●			
Obtain Additions to Reserve Committee recommendations and Regional Director General approval in principle	●			
Settle provincial/third-party interests and encumbrances (with Band Council Resolution to Indian and Northern Affairs Canada)			●	
Finalize provincial approval in principle		●		
Conduct survey and line cutting	●			
Approve survey	●	●	●	
Obtain provincial order-in-council for transfers of land to Canada		●		
Obtain federal order-in-council	●			

[1] The Treaty Land Entitlement Committee is composed of representatives from the First Nations who signed the Framework Agreement.

Source: Manitoba Treaty Land Entitlement Framework Agreement and Saskatchewan Treaty Land Entitlement Framework Agreement

● Responsible party ◓ Assists responsible party

Exhibit 7.2 Summary of roles and responsibilities for treaty land entitlement in Saskatchewan and Manitoba

Saskatchewan (1992)	Indian and Northern Affairs Canada	Province of Saskatchewan	Individual First Nations
General Responsibility			
Commit sufficient personnel to promptly and efficiently co-ordinate and facilitate compliance with obligations	●	●	
Use all reasonable efforts to reach shortfall acres acquisition date within 12 years			●
Process Responsibility			
Complete title search and initial Band Council Resolution on land selection			●
Act as the liaison between the First Nation and the Province	●		
Negotiate promptly to not unreasonably withhold the sale of provincial Crown land; expedite any release documentation required from any third party interest holder that has an interest in Crown land; expedite the preparation and passage of provincial order-in-council		●	
Prepare and finalize formal submission to Additions to Reserve Committee	◓		●
Complete environmental screening and, if necessary, environmental review and cleanup	●		●
Determine survey requirements	●		●
Satisfy third-party interests			●
Obtain legal description of the land			●
Ensure written records of consultation with the province and rural municipality	◓		●
Obtain Additions to Reserve Committee recommendation and Regional Director General approval in principle of submission	●		
Complete purchase of land if have not already done so			●
Complete transfer of title to Canada			●
Carry out required boundaries survey	●		
Expedite the preparation and passage of federal order-in-council and ministerial approval	●		

● [illegible] ◓ [illegible]

Exhibit 7.2 Summary of roles and responsibilities for treaty land entitlement in Saskatchewan and Manitoba (continued)

Manitoba (1997)	Indian and Northern Affairs Canada	Province of Manitoba	Individual First Nations	Treaty Land Entitlement Committee[1]
General Responsibility				
Ensure appropriate personnel are assigned to fully and effectively discharge Canada's obligation	●	●		●
Provide ongoing orientation of departmental personnel to Agreement requirements to encourage and foster a positive and productive working relationship between its personnel, the Treaty Land Entitlement Committee, Manitoba, and First Nations	●	●		●
Assist the First Nations and municipalities in negotiation of issues relating to municipal development and services agreements		●		
Provide technical and professional support and assistance on a timely basis to any First Nation				●
Negotiate municipal development and services agreement as required and remove, discharge, or accommodate third party interests			●	●
Process Responsibility				
Conduct land selection study			●	
Conduct environmental audit	●			
Complete initial Band Council Resolution on land selection and associated documents			●	
Act as the liaison between the First Nation and the Province	●			
Canvass provincial departments and agencies and obtain response		●		
Examine land use history and conduct legal title search	●			
Prepare submission to Additions to Reserve Committee	●			
Address provincial/third-party interests and encumbrances	●		●	
Conclude services agreement with local councils		◓	●	
Estimate survey cost	●			
Complete environmental screening	●			
Complete Additions to Reserve submission	●			
Obtain Additions to Reserve Committee recommendations, and Regional Director General approval in principle	●			
Settle provincial/third-party interests and encumbrances (with Band Council Resolution to Indian and Northern Affairs Canada)			●	
Finalize provincial approval in principle		●		
Conduct survey and line cutting	●			
Approve survey	●	●	●	
Obtain provincial order in council for transfers of land to Canada		●		
Obtain federal order in council	●			

[1] [illegible]

● [illegible] ◓ [illegible]

Treaty land entitlement agreements set out the process for converting selected land to reserve status

Reserve—A tract of land that is vested in Her Majesty and has been set apart for the use and benefit of a First Nation.

7.7 To convert a tract of land to **reserve** status under an agreement, the First Nation must first select Crown land or purchase private land. The Chief and Council notifies the Department, via a Band Council Resolution, of its decision to have the land converted to reserve status. The First Nation, the Department, and for Crown land the Province then must satisfy the conditions and requirements specified in the agreement. When all requirements are satisfied, the title of the land is transferred to Canada and an order-in-council is issued converting that land to a reserve (Exhibit 7.3).

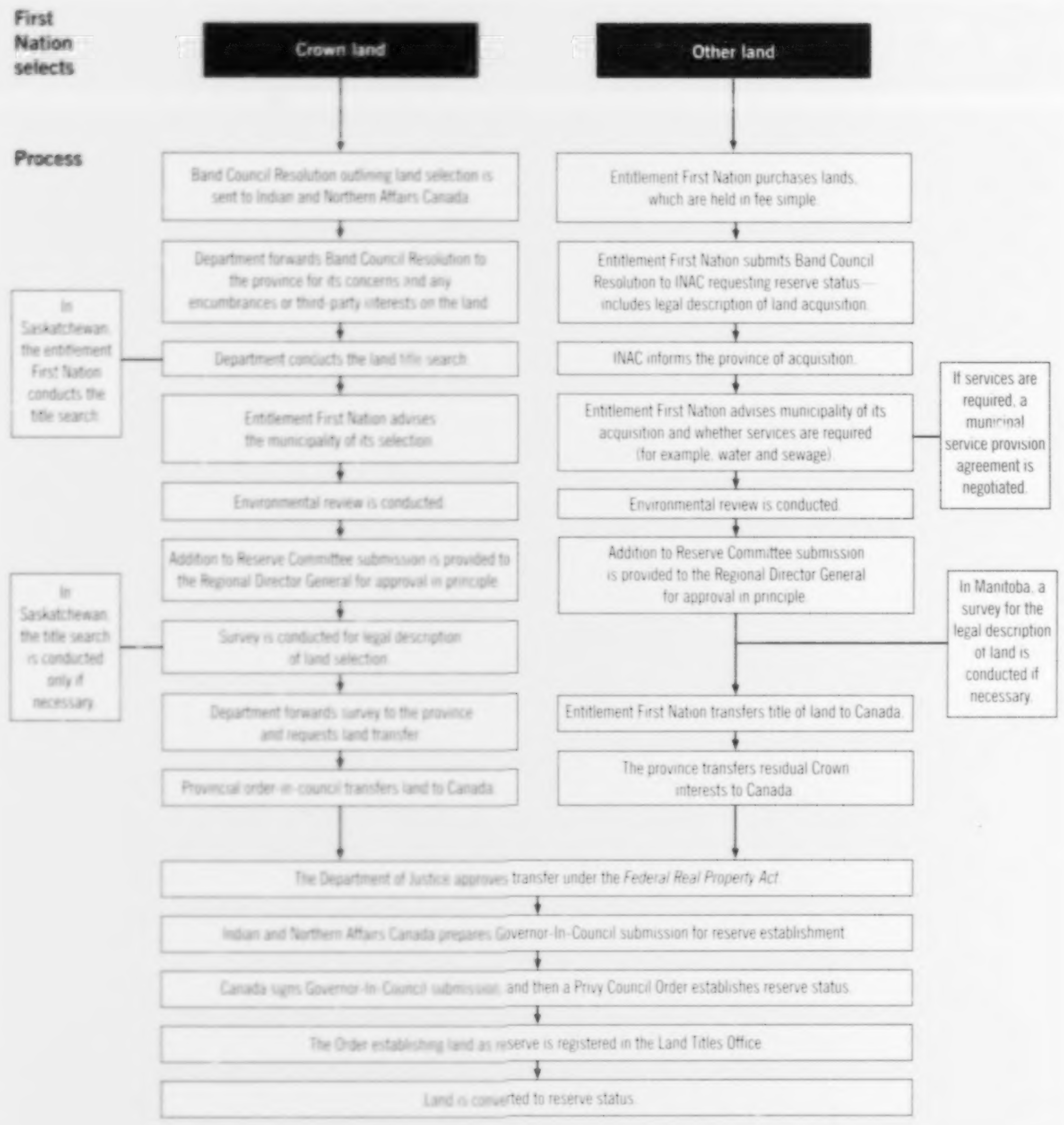
Fee simple—A title that signifies the ownership of all the rights in a parcel of real property subject only to the limitations of the four powers of government (taxation, eminent domain, police power, and escheat).

7.8 The agreements require First Nations to purchase and/or select land for conversion to reserve status. An individual First Nation may elect to hold all or some of the purchased land in **fee simple**, or it may select all or some of the land to be converted to reserve status. Furthermore, a First Nation may choose instead to use some of the funding it receives for land acquisition for economic development activities, within the limits prescribed in its treaty land entitlement agreement. However, once a First Nation selects land and indicates that it wants it converted to reserve status, the First Nation, the Department, and for Crown land the Province must follow the steps set out in the agreement.

7.9 In Saskatchewan, when private land is purchased by First Nations, as limited Crown land is available, there are provisions for two separate tax loss compensation funds. These funds are intended to help offset the anticipated loss of tax revenues to municipalities when the land achieves reserve status. For the Rural Municipal Compensation Fund, the compensation rate is 22.5 times the previous year's tax revenue, and for the Rural School Division Compensation Fund the compensation rate is 17.5 times this revenue. In instances where provincial Crown land is selected by First Nations, the Agreement states that the Province receives compensation for the land.

7.10 In Manitoba, the Framework Agreement stipulates that 90 percent of the land selections are to be from Crown land since there is sufficient available Crown land. The Framework Agreement outlines that municipal tax loss compensation is paid by the province. If the municipality can demonstrate a tax loss, the province has determined that the payment rate is five times the annual net tax loss at the time of conversion. The province does not receive compensation from the federal government for provincial Crown land selected by First Nations.

Exhibit 7.3 Overview of process for converting selected land to reserve status



Band Council Resolution outlining land selection is sent to Indian and Northern Affairs Canada

Department forwards Band Council Resolution to the province for its concerns and any encumbrances or third-party interests on the land

Department conducts the land title search

In Saskatchewan, the entitlement First Nation conducts the title search

Entitlement First Nation advises the municipality of its selection

Environmental review is conducted

Addition to Reserve Committee submission is provided to the Regional Director General for approval in principle

Survey is conducted for legal description of land selection

In Saskatchewan, the title search is conducted only if necessary

Department forwards survey to the province and requests land transfer

Provincial order-in-council transfers land to Canada

Entitlement First Nation purchases lands, which are held in fee simple.

Entitlement First Nation submits Band Council Resolution to INAC requesting reserve status—includes legal description of land acquisition.

INAC informs the province of acquisition.

Entitlement First Nation advises municipality of its acquisition and whether services are required (for example, water and sewage).

If services are required, a municipal service provision agreement is negotiated.

Environmental review is conducted.

Addition to Reserve Committee submission is provided to the Regional Director General for approval in principle.

In Manitoba, a survey for the legal description of land is conducted if necessary.

Entitlement First Nation transfers title of land to Canada.

The province transfers residual Crown interests to Canada.

The Department of Justice approves transfer under the *Federal Real Property Act*.

Indian and Northern Affairs Canada prepares Governor-In-Council submission for reserve establishment.

Canada signs Governor-In-Council submission, and then a Privy Council Order establishes reserve status.

The Order establishing land as reserve is registered in the Land Titles Office.

Land is converted to reserve status.

Source: Manitoba Treaty Land Entitlement Framework Agreement, Saskatchewan Treaty Land Entitlement Framework Agreement, and Indian and Northern Affairs Canada

7.11 Reserve creation procedures set out in the Saskatchewan Framework Agreement apply for 15 years. The Agreement states that, following the 14th anniversary (September 2006), the parties agree to enter into negotiations to determine what additional period of time, if any, the procedures shall continue to be effective and what amendments, if any, are required. If the parties do not reach an agreement before the 15th anniversary, then the procedures as set out in the agreement apply for a period of three years, at which time, unless otherwise agreed to, the procedures in place for other categories of reserve creation will apply. There is no expiry date for the Manitoba Treaty Land Entitlement Framework Agreement.

Focus of the audit

7.12 Our audit examined whether Indian and Northern Affairs Canada has a framework in place to manage additions to reserves resulting from treaty land entitlement agreements, consistent with its legal obligations as set out in those agreements. We also assessed whether the Department adequately communicates to First Nations their responsibilities under treaty land entitlement agreements to allow for the timely conversion of selected land to reserve status. Finally, we examined whether the Department reports relevant information to Parliament on the results achieved in meeting its legal obligations with regard to treaty land entitlement agreements.

7.13 We did not audit other organizations involved in the process; nor did we audit First Nations or treaty land entitlement trust agreements, which manage funds received as part of agreements. However, we did interview officials from these organizations and First Nations to determine how the Department is managing its responsibilities. Further details on our audit objectives, scope, approach, and criteria are presented in **About the Audit** at the end of the chapter.

Observations and Recommendations

7.14 The Department had difficulty reconciling data provided to us and demonstrating their accuracy. The data presented in this audit came from various databases, individual land selection files, and other regional files. Overall the data represent the Department's and our best estimates based upon the information that was available.

Converting land to reserve status

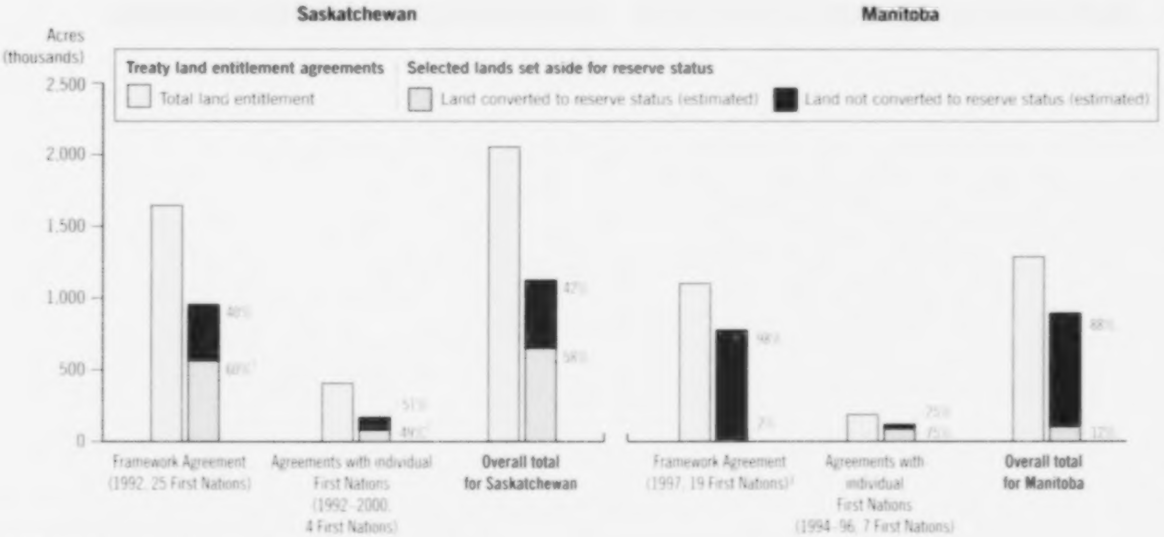
Limited progress has been made converting land to reserve status

7.15 In 2001, the Minister of Indian and Northern Affairs made a commitment to reduce the time to convert land selected by First Nations to reserve status from five-to-seven years to two years. We expected that the Department would have pursued this commitment as well as its commitment to fulfill its obligations outlined in the agreements. We found that the Department has made some progress in meeting these obligations in Saskatchewan, but it has made little progress in Manitoba.

7.16 Overall, about 58 percent of acres selected by First Nations in Saskatchewan have been converted to reserve status. More specifically, since the signing of Saskatchewan Framework Agreement in 1992, about 60 percent of acres selected for conversion to reserve under the Framework Agreement have been converted to date, although about 90 percent of **shortfall acres** have been converted. In addition, about 49 percent of acres selected for conversion under individual agreements signed between 1992 and 2000 have been converted (Exhibit 7.4).

Shortfall acres—The amount of land that a First Nation should have received when its reserve was first surveyed, but did not. Under treaty land entitlement agreements, it is the minimal acreage that must be purchased and/or selected and set apart as reserve land.

Exhibit 7.4 Progress in converting selected land to reserve status in Saskatchewan and Manitoba*



* This exhibit is based on departmental estimates.

[1] In the Saskatchewan Treaty Land Entitlement Framework Agreement 420,792 acres were designated as shortfall acres. Approximately 378,852 acres (90 percent) have been converted to reserve status. This translates to 20 of 25 First Nations having all their shortfall acres converted to reserve status.

[2] In the four individual agreements, a total of 101,664 acres were designated as shortfall acres. Approximately 72,700 (71.5 percent) have been converted to reserve status. This translates to one of four First Nations having all its shortfall acres converted to reserve status.

[3] Four First Nations have yet to ratify the Manitoba Treaty Land Entitlement Framework Agreement. Although not included in these calculations, these First Nations have made selections totalling 32,021 acres—none of which have been converted to reserve status.

Source: Indian and Northern Affairs Canada

7.17 Overall, about 12 percent of acres selected by First Nations in Manitoba have been converted to reserve status. More specifically, since the signing of the Manitoba Framework Agreement in 1997, only about two percent of acres selected under the Framework Agreement have been converted to reserve status. However, about 75 percent of acres selected to date under individual agreements signed between 1994 and 1996 have been converted to reserve status (Exhibit 7.4).

7.18 A large number of acres in both provinces have been selected by First Nations, but are not yet converted to reserve status. The Department estimates the total to be about 473,000 acres in Saskatchewan and about 790,000 acres in Manitoba. Furthermore, the Department has been unable to demonstrate that it has any plan in place to process remaining selections and to fulfil commitments under these agreements.

7.19 We believe the Department's progress is inconsistent with Canada's commitments to meet its obligations to First Nations under treaty land entitlement agreements and convert lands to reserve status within two years. This is particularly of concern given that the Saskatchewan Framework Agreement is to expire soon.

7.20 **Recommendation.** Indian and Northern Affairs Canada should develop and implement a plan setting out explicit steps it will take to process outstanding selections and to meet commitments to reduce the processing time for treaty land entitlement selections from initial Band Council Resolution to conversion to reserve status.

Department's response. Over the past few years, Indian and Northern Affairs Canada has made investments in improving the overall processes by which land is set apart as reserve. Building on past accomplishments, the Department will continue to work in this area and include a focus on regionally specific challenges that have historically hindered the conversion of land.

First Nations realize tangible benefits in converting land to reserve status

7.21 The Department acknowledges that delays in converting land to reserve status under treaty land entitlement agreements have an impact on First Nations' social and economic development opportunities. The delays can also result in significant financial costs for First Nations that purchase private land for conversion and need to pay taxes until it is converted to reserve status. However, when land is converted, tangible benefits are sometimes realized.

7.22 A recent publication by Western Economic Diversification Canada, which was intended to provide some context to the issue of reserve creation in Saskatchewan, points out that some observers note several potential community and social impacts on First Nations of acquiring additional reserve land, in particular urban land. These impacts may include a raise in members' standard of living; a cultural environment in which to interact as entrepreneurs, clients, and educators; and a centralized location for First Nations businesses and organizations. Potential economic impacts may include increased employment and an environment for developing First Nations-owned businesses. Communities may benefit as well from increased demand for professional services and from increased revenues for municipal governments due to the services provided. Exhibit 7.5 sets out some examples of First Nations that have used treaty land entitlement selections to improve their economic and social situation.

Exhibit 7.5 Impact of reserve land created under treaty land entitlement agreements

Muskeg Lake First Nation purchased land in Saskatoon, Saskatchewan and created a commercial business park.

The benefits include 40 on-site businesses (Aboriginal and non-Aboriginal owned), a wide variety of employment opportunities for First Nations, increased revenues to the city for municipal services, and important commercial and economic development for the First Nation.

Star Blanket First Nation purchased land with an office building in Fort Qu'Appelle, Saskatchewan.

The benefits include economic opportunity and growth for both the First Nation and the municipality; space for Aboriginal businesses and financial institutions, which employ over 100 people in the town; and valuable training and employment opportunities for First Nations.

Source: Muskeg Lake First Nation, Star Blanket First Nation, and Indian and Northern Affairs Canada

The Department needs to clearly communicate procedures and timelines to First Nations

7.23 In order to facilitate the treaty land entitlement process, we expected that the Department would follow the processes set out in the agreements to convert selected land to reserve status and communicate them clearly to First Nations. We also expected that the Department would have an effective administrative process to convert selected land to reserve status.

7.24 Although procedures in the treaty land entitlement process are prescribed in the agreements, various departmental documents outline how land can be converted under circumstances outside the agreements. These different versions of procedures to be followed to convert land to reserve status have frustrated First Nations because the Department does not always clearly communicate to First Nations which process is being applied to their treaty land entitlement selections, where First Nations are in the process, and what the next steps are and when they are to be completed.

7.25 We expected that the Department would work closely with First Nations involved in the process and with First Nations organizations in each region to ensure that the requirements were understood and met. This is especially the case for those First Nations with less capacity to meet such requirements.

7.26 The Department's communication is both formal (documented) and informal (telephone calls or meetings between project officers and First Nations or visits by project officers to First Nations, which are not documented in the files). However, this communication is not co-ordinated or sustained. We found instances where there had been little communication regarding selections for several years. This is particularly significant given that band elections are held as often as every two years and may result in new band councils with little knowledge of treaty land entitlement or of where their First Nation is in the process, which can further delay the process. We also found that the Department does little work with province-wide First Nations organizations to facilitate progress.

7.27 **Recommendation.** Indian and Northern Affairs Canada should work more closely with each First Nation to develop an action plan for its selections. This should include

- ensuring that the First Nation understands the conversion process,
- setting out timelines or schedules for key milestones in the process,
- setting out a strategy for converting each of the selections to reserve status, and
- providing ongoing assistance to First Nations as they work to meet their responsibilities under the agreements.

Department's response. Indian and Northern Affairs Canada has already begun to implement this recommendation, with regional offices now meeting with individual First Nations on a regularly scheduled basis. Jointly with First Nation partners, Indian and Northern Affairs regional offices will undertake to have long-term strategic plans in place by December 2006. A component of these strategic long-term plans will be an operational element that is dedicated to identifying problematic selections of each First Nation, as well as a plan on how to move these selections forward. These plans will include a clear articulation of individual roles and responsibilities consistent with the treaty land entitlement settlement agreements, critical steps, and targeted time frames. These sessions will also provide an opportunity for regular communication and for the Department to further assist First Nations in meeting their obligations as set out under the agreements.

The Department's management of the process

Long-recognized problems with the conversion process have not been resolved

7.28 The Department has known about problems with the reserve conversion process for many years. Since 1996, the Department has conducted several reviews examining the problems in implementing treaty land entitlement. These reviews have resulted in action plans to address the problems. However, the Department has made limited progress on commitments made in these action plans, and the problems persist. Three major issues have been identified: environmental reviews, land surveys, and the resolution of third-party interests.

Updating environmental reviews is not always necessary

7.29 As part of converting land to reserve status, the agreements require an environmental review (or site assessment) of the parcel of land selected to determine if any past activities have adversely affected the land. This review can be done before property is purchased or, in the case of Crown land, before the land is surveyed. In some cases, a more detailed environmental impact assessment may also be required.

7.30 In 1999, the Department issued guidance that stale dates environmental reviews based on risk factors, such as change to the use of lands after the initial environmental site visit. The guidance sets two years as the time frame for which an environmental site assessment is considered valid. However, the process of converting land to reserve usually takes longer than two years, meaning the environmental reviews often need to be updated. In Manitoba, about 600,000 acres have already gone through the environmental review process. However, since only a small number of these acres have been converted to reserve status to date, a significant number of environmental reviews may become stale-dated and need to be updated, potentially further delaying the conversion.

7.31 The majority of land selected in Manitoba is in remote undeveloped forest settings with limited road access. Many selections in Saskatchewan are also in remote settings. As such, development and activity on these parcels is limited, and there is little risk that environmental conditions will have changed during the two years. Regional departmental staff have proposed that the guidance be revised, allowing for more discretion in determining whether reviews need to be updated. However, their attempts have been unsuccessful. In both regions, we found repeated environmental reviews (two and three versions) with few changes, separated by several years, on the same parcels of land.

7.32 Environmental reviews can be expensive (staff time, flights and charters, accommodations), and conducting additional site visits means increased costs for each selection. Further, we found no formal co-ordination of environmental reviews with other requirements, such as surveys.

Planning land surveys results in delays

7.33 As part of the process to transfer land to the Crown, the agreements require land surveys. The effort needed to meet this requirement varies considerably, from parcels of land where existing surveys can be relied on to land where original survey work must be undertaken, such as northern Crown land.

7.34 A lot of time and money is spent doing survey work in remote areas. In Manitoba, departmental officials told us that this requirement can impede the progress of some proposals because surveys can only be undertaken during certain parts of the year, and there are few available surveyors and a limited survey budget. Officials also told us that, given the circumstances, some parcels of land in Manitoba will not be surveyed for up to 10 years. The provincial regulatory authority for surveys rejected proposals by regional staff to do less detailed survey work in remote locations.

Third-party interest—Any interest, right, or estate of any nature held by a third party in or to land, or any right of use or occupation of land, other than outright ownership.

7.35 Similar to environmental reviews, survey work is often undertaken independent of the resolution of **third-party interests** and other work that needs to be done to convert land. In some cases, we found that although the survey was complete, the file remained stalled because of unresolved third-party interests. In our view, better co-ordinated survey planning would facilitate the land conversion process.

7.36 **Recommendation.** While respecting legislation and statutes, Indian and Northern Affairs Canada should

- issue revised guidance that sets out criteria for departmental officials to follow when carrying out environmental reviews, with specific time frames and that allows for discretion on the part of personnel to determine whether updates are necessary;
- plan land surveys so that they are undertaken to allow selected land to be converted to reserve status in a timely manner; and
- develop a co-ordinated strategic plan so that the required environmental reviews and land surveys do not hold up conversion of land to reserve status.

Department's response. Indian and Northern Affairs Canada will make available, on its Web site by April 2006, Chapter 12 of the *Lands Management Manual* that will be dedicated to environmental management. This chapter will include a clearly articulated policy on what will be considered a "stale dated" environmental site assessment. This policy will be based on appropriate principles, such as the use of discretion and risk management when assessing whether individual land selections require environmental reassessment.

Prior to the start of each fiscal year, regional offices will develop annual operational plans within their broader strategic plans that deal with the timing of land surveys and environmental assessments. To the extent possible, the land surveys and environmental assessments will be planned so that they are carried out simultaneously, especially on land parcels in remote locations.

Resolving third-party interests needs to be given priority

7.37 The agreements require First Nations to resolve third-party interests, although the Saskatchewan Framework Agreement provides that the Department may assist First Nations in this work. Departmental officials in both regions told us that third-party interests are a significant challenge, often contributing to long delays.

7.38 We expected that the Department would have a strategy in place to assist First Nations in their efforts to resolve third-party interests. We found that there is no strategy for facilitation, or guidance to First Nations on how to resolve third-party interests. To date, the Department's efforts to assist First Nations have been ad hoc and sporadic.

Municipal service provision agreement—An agreement between a First Nation and a municipality, where the First Nation purchases services, such as garbage pickup, snow removal, fire and police protection, and the provision of water or electricity, for an agreed-upon price from the municipality.

7.39 **Municipal service provision agreements present problems.** If a First Nation requires services from a municipality for reserve land, the agreements require the First Nation to request that the municipality enter into negotiations for a **municipal service provision agreement**. In both regions, these agreements present problems and delay the conversion of land to reserve status.

7.40 The framework agreements do not absolutely require municipal service provision agreements to be in place before land is converted to reserve status. If the First Nation has made reasonable attempts to address the municipality's concerns, and the municipality has refused to sign an agreement, the Department can recommend to the Minister that land be set apart as reserve. However, this is seldom done. In one case, a parcel was held up in negotiations for six years, with the First Nation paying the taxes out of its settlement funds. When asked to assist in resolving this issue, the Department was unable to respond because the land selection had not been tracked due to internal miscommunication, and more information was needed.

7.41 According to departmental estimates, many land selections initiated in Saskatchewan are later de-selected. Officials told us this is often done because third-party interests cannot be resolved. In our view, the Department should take a stronger role in facilitating the resolution of third-party interests, so that it may fulfill its obligation to provide reserve land to First Nations.

7.42 While the Manitoba Framework Agreement has made funds available for First Nations to resolve third-party interests in Manitoba, First Nations have not accessed these funds. As part of the agreement, $8.9 million was set aside in 1997 for First Nations to help them address third-party interests. These funds are administered by the Treaty Land Entitlement Committee, which is made up of signatory First Nations. To date, none of this money has been used even though for many selections third-party interests have been unresolved for many years and continue to delay conversions. The Treaty Land Entitlement Committee told us that First Nations found the process to access this fund very complicated, due to the lengthy process and complex documentation required for approval of a disbursement.

7.43 At the same time, officials noted examples where the Department has helped First Nations resolve third-party interests with some success. For example, in one case where a municipality was seeking input from residents on whether to oppose a conversion within its municipal boundary, the Department participated in a public meeting to address concerns about reserve land being created within the municipality. The Department was able to explain treaty land entitlement and to set out that the First Nation had fulfilled requirements under its agreement. After this meeting, the First Nation was able to successfully negotiate a service provision agreement with the municipality. This indicates that where the Department is more active in participating, such issues can be resolved. However, as there are many instances where parcels of land remain stalled because of third-party interests, the Department should consider providing more assistance to First Nations to resolve these issues.

7.44 The Department has taken steps to clarify requirements. In 2003, the Department, with the Federation of Canadian Municipalities, began a project to enhance communication between First Nations and municipal governments to address some of the issues preventing the signing of municipal service provision agreements. This project focussed on developing a tool kit that, among many things, included an overview of the national additions to reserves policy, suggestions for establishing municipal-First Nations relationships, and case studies showing positive municipal-First Nations partnerships. Complementing this project were workshops that involved the participation of First Nations communities and municipalities. This collaborative initiative is a positive first step toward resolving outstanding issues stemming from treaty land entitlement.

7.45 Provisions to resolve impediments are not used to full potential. Dispute resolution mechanisms for resolving obstacles that may arise during the course of implementation can be helpful, but only when the parties involved use them. Given the number of land selections in process, we expected that the parties would use dispute resolution mechanisms to resolve issues that arose during the implementation process. Although such mechanisms exist in both regions—the Settlement Board and Arbitration Board in Saskatchewan and the Implementation Monitoring Committee and Senior Advisory Committee in Manitoba—they are not being used in a way that helps to resolve outstanding issues and conflicts, such as third-party interests.

7.46 Recommendation. Indian and Northern Affairs should work with First Nations to assist them in their efforts to resolve third-party interests. This should include

- building on initial efforts, and identifying and educating stakeholders that typically have third-party interests and educating them on what treaty land entitlement involves and how it affects them;

- identifying systemic barriers to resolving recurring third-party interests and providing information to First Nations on possible strategies and actions to address them; and
- encouraging the use of dispute resolution mechanisms set up under treaty land entitlement agreements to help resolve third-party interests.

Department's response. Indian and Northern Affairs Canada will increase activities related to joint education and information sessions between First Nations, provinces, and other interests such as municipalities. This will include building on the best practices realized through the Saskatchewan treaty land entitlement processes as well as the ongoing work of the Federation of Canadian Municipalities in this area. The Department will further develop practical tools, such as case studies that identify systemic challenges and examples of how these have been successfully addressed.

The treaty land entitlement settlement agreements included the creation of First Nations dispute resolution entities in some cases. These entities were mandated to assist First Nations signatories to the agreements in their negotiations with third-party interests. The Department has began meeting with these First Nations dispute resolution entities on a regular basis to facilitate First Nations' access to and use of these mechanisms.

The Department needs to address deficiencies in its management practices

7.47 We expected the Department to have a management accountability framework setting out plans, human resources requirements, guidelines, and systems and procedures that need to be in place to meet its treaty land entitlement obligations. However, we found that it has limited planning, formal guidance, and alignment of human resources to do the work, and that systems and procedures are not in place to facilitate the processing of selections.

Land selection files illustrate the need for improved management practices

7.48 We reviewed land selection files in both Saskatchewan and Manitoba to gain insight into particular problems and assess departmental performance against stated commitments. To accomplish this, we extracted two purposeful samples. In the first sample, we asked both Saskatchewan and Manitoba to identify their best cases and more problematic cases, for a total of 24 files. The function of this sample was to determine what the Department determines as successes and failures. In our second sample, we selected 44 files representing a cross-section of land selection situations with specific characteristics, such as the location (urban or rural, northern or southern), affiliation (part of multi-party framework agreement or an individual agreement), and status (complete or still in process). These cases were reviewed and compared with the best and problematic cases.

7.49 In both samples, we found that most files contained the key documents required to the point that the files had progressed in the process. The majority of completed files were from Saskatchewan, whereas Manitoba had a significant number of files still in the process. Overall, we found little evidence of communication with individual First Nations, such as notes-to-file and records of meetings—documentation necessary for properly managing selections.

7.50 Most significant was the considerable variation in file management methods by individual project officers. This ranged from detailed and comprehensive checklists, to periodic notes-to-file, to very little file management whatsoever. This finding is of particular concern when coupled with the level of staff turnover noted among project officers responsible for the selections in each sample. Some files had as many as four project officers in six years. If information is not systematically collected and recorded, then it quickly becomes an issue of high risk when coupled with staff turnover and the Department's unreliable data systems.

7.51 Within the sample of best and problematic cases, almost all of the files that the Department considered a success had proceeded or were proceeding through the process with few complications. However, we noted that the processing times were much faster in Saskatchewan than in Manitoba. Conversely, most of the files that the Department considered problematic were more complex, involving third-party interests, difficulties with municipalities, and procedural matters (for example, land selections deemed ineligible under the framework agreements).

7.52 In our second sample, we found that the majority of files had the same characteristics as the problematic cases in our first sample. Very few cases had gone through the process without complications, and most were delayed at some point in the process. Delays were most often caused by third-party interests, such as concerns of municipalities or issues related to natural resources (minerals or oil and gas). When the files remained stalled for several years, there were no plans to resolve the impasse. Conditions attached by the Department to regional approval-in-principle, a document indicating the region's support for selections, were another cause of delays. Given that most of the files in our second sample exhibited the same characteristics as the problematic files in the first sample, we believe there are critical issues that must be addressed in planning and file management.

The Department does no planning to improve the conversion rate for the remaining land selections

7.53 Given the number of land selections in both regions that have yet to be converted to reserve status and the 2001 ministerial commitment to reduce the conversion time to two years, we expected to see regional plans that set out a strategy to speed the conversion time.

7.54 In Saskatchewan, annual planning documents do not set out any specific objectives for treaty land entitlement agreements. For instance, there is no mention of the number of selections to be processed or a projected time frame within which the remaining lands will be converted. In addition, we found that the region sometimes tells First Nations to "split" larger selections of land into several smaller selections. This serves to isolate parcels of land with more difficult issues (for example, third-party interests), allowing simpler parcels to be processed first. This in turn leaves the more difficult selections to be processed later, and sometimes results in a "checkerboard" of reserve land interspersed with fee simple land. We did not find a plan to resolve the more complex selections.

7.55 The situation is the same in Manitoba, where there is no annual plan specifying how many land selections will be processed. In addition, officials told us that there is no plan to address those selections that are "high graded"—the easiest are processed first, and the more complex selections are delayed.

7.56 **Additional treaty land entitlement agreements are being negotiated.** Several First Nations in Saskatchewan and one in Manitoba, which have not been part of the treaty land entitlement process to this point, are negotiating to finalize treaty land entitlement agreements. Therefore, it is likely that the Department will be processing selections from additional agreements in the future, and it will need to consider this as it develops regional plans and allocates resources for future work.

7.57 **Insufficient human resources allocated to processing selections.** While more complex selections remain incomplete, the Saskatchewan region has reduced the number of staff managing these files in recent years. In addition, junior officers now manage these files. Officials told us that this is because remaining proposals are considered to be more routine or administrative in nature. However, given the number of remaining files known to be complex, we believe that this is not the case. In Manitoba, there has been a recent reorganization, and some positions remain unfilled. This presents difficulties, given the large number of selections the region must still process.

7.58 Lack of tools and guidelines for staff to follow. The limited number of project officers and their often limited experience reinforces the importance of tools (for example, checklists and file management systems) and guidelines that all staff should be following. However, we found there is little guidance available to staff and little evidence of professional development or training to ensure that project officers have the requisite knowledge and training to process selections.

7.59 Recommendation. Indian and Northern Affairs Canada should develop and implement a consistent approach to ensure that its land selection files are properly organized and contain documentation required to facilitate conversion.

Department's response. Indian and Northern Affairs Canada will develop an appropriate and consistent file management practice over the coming months, and implement it in the future.

7.60 Recommendation. Indian and Northern Affairs Canada should develop a strategic management plan outlining how it will manage its operations to process selections within a reasonable period of time. This strategic plan should

- include a projection of the ongoing workload (in terms of selections in process and selections expected in the future);
- set out how the Department will process remaining selections, which are often complex;
- set out resources required (people and financial resources); and
- track the information needed to better plan and report the results of its work.

Department's response. Working with First Nation partners, the Department's regional offices will develop long-term strategic plans that include various operational (annual) components. The plans will be subject to periodic review and adjustment and will include time targets and performance measures. These strategic plans will be in place by December 2006, with the operational planning components coming into effect incrementally along the way.

The Department does not have a centralized information tracking system

7.61 We had considerable difficulty relying on departmental data due to incomplete and inconsistent information. There is no national database to manage, track, and report on the Crown's commitments to meet its treaty land obligations. Existing information systems vary by region. Management information gathered by the Department does not provide a basis for adequate management and control of the process. Nor does it encourage accountability for results as it is does not capture the Department's progress in meeting its obligations.

7.62 Both framework agreements set out timelines for parties to complete steps in the process. We expected the Department to have collected sufficient information to track progress and identify delays or other problems at the various stages in the process. However, the Department has no tracking system to monitor whether these timelines are respected. Where timelines are set out in agreements they are not monitored to keep selections moving, and actual time spent on each selection is not formally captured. Such information could help identify the potential for improvements in processing efficiency. Due to these deficiencies, the Department cannot directly link results to costs or time frames, or identify and address trends.

7.63 **The proposed national tracking system will not meet the Department's needs.** The Department has repeatedly noted the need for a comprehensive, national tracking system to help it manage the complex process of treaty land entitlement and additions to reserve, and track and report on progress of individual selections. However, while the Department has been planning for a national database since 1999, there is still none in place.

7.64 The latest effort, the Additions to Reserve Reports Initiative, seeks to implement a national system to track ongoing efforts through a defined life cycle and to contribute to streamlining and shortening the overall process. In our review of the initial modules rolled out to regional offices, we found that the data elements suggested by headquarters are general and of little use in helping regions manage the process. The system will not allow the Department to identify obstacles in the process, and to track and report performance. In short, this database will not allow the Department to effectively monitor progress for management or accountability purposes.

7.65 **Recommendation.** Indian and Northern Affairs Canada should

- take steps to ensure that treaty land entitlement data are complete and accurate;

- develop and implement a file-tracking system that can provide accurate information on results achieved (for example, number of acres selected, number of acres converted). The file-tracking system should be designed to flag barriers and risks to individual files so that remedies may be introduced and files can be completed in a timely and efficient fashion; and
- regularly provide information needed to process selections to those involved in the process, including entitlement First Nations and provincial governments.

Department's response. Indian and Northern Affairs Canada will develop a horizontal database/electronic management system based on the integration of a variety of modules, including a redesigned Additions to Reserves module. When fully operational, by 1 April 2009, this database/electronic management system will allow for optimal information retrieval as well as daily operational management of files.

A number of incremental phases will be required. In the first year of development (2006–07), the data integrity of information contained in existing databases and paper files will be verified. At the same time, the project plan and system architecture plan will be developed. By the end of the second year (2007–08), paper records will be converted to electronic media, and existing modules will be appropriately reworked and some horizontally integrated. The third year (2008–09) will be the final system construction year. Over of the year, the system will be tested. Upon completion of successful testing, the system will be deployed by the end of the year.

Monitoring and reporting of results to Parliament

The Department's monitoring and reporting of results is incomplete

7.66 Good performance reporting is fundamental to effective governance and accountability to Parliament. We reviewed the Department's reports on plans and priorities and departmental performance reports for the last five years. We wanted to determine if the Department had established objectives that matched its legal obligations set out in treaty land entitlement agreements, if there were specific timelines and targets showing how it planned to meet these objectives, and if results were reported.

7.67 We found limited information on the Department's objectives, performance expectations, timelines, and reporting of results. While we do not necessarily expect detailed reporting annually, Parliament needs this information periodically. For example, the expiry of the

Saskatchewan Framework Agreement is an ideal opportunity to report on the obligations met by Canada under the 1992 Agreement. We found no public documents setting out the Department's progress in meeting treaty land entitlement obligations. In 2001 the Minister made a commitment to reduce the time to convert selected lands to reserve from five-to-seven years to two years. Subsequent departmental performance reports do not report against this commitment.

7.68 **Recommendation.** Indian and Northern Affairs should periodically include in its performance report to Parliament

- results information on meeting its legal obligations for treaty land entitlement, including costs, numbers of acres selected, and acres converted to reserve status; and
- an update on its efforts to reduce the time taken to convert selected land to reserve status.

Department's response. Indian and Northern Affairs Canada is committed to providing relevant performance information to Parliament on treaty land entitlement. It will do so in its next departmental performance report and then periodically, every three years.

Conclusion

7.69 The Department has made limited progress in converting lands selected under treaty land entitlement agreements to reserve status. While there has been more progress in Saskatchewan than in Manitoba, a large number of land selections have yet to be processed. Furthermore, the Department has been unable to demonstrate that it has any plan in place to process remaining selections and to fulfil commitments under these agreements.

7.70 The Department does not have a management framework in place to convert lands selected by First Nations under treaty land entitlement agreements to reserve status within a reasonable period of time. We found limited planning, information on tracking of selections, formal procedures, and tools and guidance for project officers—all necessary for the Department to meet its obligations under the agreements.

7.71 The Department needs to communicate to First Nations what is required of them and when, and to do so in a manner that helps First Nations meet these requirements as quickly as possible.

7.72 Long-recognized problems with the conversion process remain, and they slow down the conversion of land. The Department needs to address issues related to environmental reviews and land surveys; their resolution will reduce the time taken to convert land.

7.73 While addressing third-party interests is a responsibility of First Nations, the Department needs to work with First Nations to assist them in developing strategies to deal with these interests.

7.74 The Department provides limited information to Parliament on the progress made in meeting its obligations. It needs to develop an information-tracking system to produce reliable and meaningful data that will enable the Department to better manage its activities and report on its performance.

Department's overall response. Canada is committed to honouring its lawful obligations to First Nations and resolving outstanding grievances to the benefit of all Canadians. By addressing historic injustices that undermine trust and co-operation, strong partnerships among Aboriginal people, governments, and non-Aboriginal communities are emerging. The settlement of specific claims, such as those that have resulted in treaty land entitlement settlement agreements in Manitoba and Saskatchewan, assists in building these partnerships and spurs economic development on-reserve and in surrounding communities. Investments in this area have so far yielded tangible benefits for First Nations and for provincial and local governments.

Indian and Northern Affairs Canada is committed to ongoing improvements in meeting its obligations associated with treaty land entitlement settlement agreements in Manitoba and Saskatchewan. The Department will continue to work with the First Nations and provincial governments signatory to these agreements, while respecting the negotiated roles of each party as defined in the agreements.

The Department recognizes the importance of issues raised in this chapter and will work with First Nations and other partners to put in place measures that build on existing accomplishments, in an effort to address these issues. These issues range in complexity and involve the co-operation of all those signatory to the treaty land entitlement agreements. While the Department accepts the recommendations, in the current financial context we will need to ensure that appropriate funding is available to deliver on them. As well, it must be recognized that this work will also require the co-operation of other parties, such as municipal governments, other government departments, and third-party interests, who, while not specifically signatory to these agreements, have varying degrees of involvement and impact on the processes that were examined in this audit.

About the Audit

Objectives

The objectives of the audit were to determine whether Indian and Northern Affairs Canada

- has a framework in place to manage additions to reserves resulting from treaty land entitlement agreements in a manner consistent with its legal obligations as set out in these agreements,
- adequately communicates to First Nations their responsibilities under treaty land entitlement agreements to allow for the timely transferral of lands acquired under treaty land entitlement agreements to reserve status, and
- reports to Parliament relevant information on the results achieved in meeting its legal obligations with regard to treaty land entitlement agreements.

Scope and approach

Our audit focussed on Indian and Northern Affairs' management of the treaty land entitlement obligations and assessed whether it was consistent with the legal obligations as set out in treaty land entitlement agreements. We focussed on Manitoba and Saskatchewan because together they have the majority of all treaty land entitlement agreements.

We used two samples in order to gain insight into particular problems and assess departmental performance on their stated commitments. The first sample was an extreme or deviant case sample where we asked both Saskatchewan and Manitoba to identify an equal number of their best cases and their more problematic cases, for a total of 24 files. Our second sample was a purposeful stratified sample where we selected a number of files from each region to represent a cross-section of land selection situations, for a total of 44 files. This second sampling technique was used to determine whether selections were facing the same situations described in the better cases or more problematic cases.

We based our analysis on each region's treaty land entitlement agreements. We identified critical points in the land conversion process and assessed selections against these critical points. We tracked selections by using key dates, starting with when a First Nation initiated a land selection (initial Band Council Resolution) through to when the selection reached reserve status (order-in-council).

The audit team interviewed departmental personnel at headquarters and regional offices in Saskatchewan and Manitoba. We also met with regional officials from Natural Resources Canada and the Department of Justice Canada. We sought the views of selected representatives from First Nations communities and organizations, in addition to representatives at the provincial and municipal levels. We reviewed relevant documentation, including legislation, corporate and regional documents, planning documents, studies, action plans, evaluation and other reports, and information from stakeholders.

Criteria

Our audit was based on the following criteria:

- Indian and Northern Affairs Canada consulted and reached agreements with First Nations and other stakeholders regarding the manner to convert the land selected under treaty land entitlement agreements to reserve status in a timely manner for the optimal benefit of First Nations.
- The Department had in place the organization and resources, as well as clearly articulated policies, procedures, and timelines for implementing treaty land entitlement agreements and processing additions-to-reserve proposals.
- The Department communicated to First Nations their responsibilities and the steps involved in the additions-to-reserve process following from treaty land entitlement agreements, and the associated timeframes, in a manner that allows First Nations to understand and adequately respond to them.
- The Department provided adequate resources, training, and guidance to First Nations involved in the additions-to-reserve process following from treaty land entitlement agreements to assist meeting the requirements being made of them.
- The Department established objectives consistent with meeting its legal obligations related to treaty land entitlement agreements, monitored and measured its progress in meetings its objectives, and publicly reported its performance.

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Appendix List of recommendations

The following is a list of recommendations found in Chapter 7. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Department's response
Converting land to reserve status	
7.20 Indian and Northern Affairs Canada should develop and implement a plan setting out explicit steps it will take to process outstanding selections and to meet commitments to reduce the processing time for treaty land entitlement selections from initial Band Council Resolution to conversion to reserve status. **(7.15-7.19)**	Over the past few years, Indian and Northern Affairs Canada has made investments in improving the overall processes by which land is set apart as reserve. Building on past accomplishments, the Department will continue to work in this area and include a focus on regionally specific challenges that have historically hindered the conversion of land.
7.27 Indian and Northern Affairs Canada should work more closely with each First Nation to develop an action plan for its selections. This should include • ensuring that the First Nation understands the conversion process, • setting out timelines or schedules for key milestones in the process, • setting out a strategy for converting each of the selections to reserve status, and • providing ongoing assistance to First Nations as they work to meet their responsibilities under the agreements. **(7.23-7.26)**	Indian and Northern Affairs Canada has already begun to implement this recommendation, with regional offices now meeting with individual First Nations on a regularly scheduled basis. Jointly with First Nation partners, Indian and Northern Affairs regional offices will undertake to have long-term strategic plans in place by December 2006. A component of these strategic long-term plans will be an operational element that is dedicated to identifying problematic selections of each First Nation, as well as a plan on how to move these selections forward. These plans will include a clear articulation of individual roles and responsibilities consistent with the treaty land entitlement settlement agreements, critical steps, and targeted time frames. These sessions will also provide an opportunity for regular communication and for the Department to further assist First Nations in meeting their obligations as set out under the agreements.

Recommendation	Department's response
The Department's management of the process	
7.36 While respecting legislation and statutes, Indian and Northern Affairs Canada should • issue revised guidance that sets out criteria for departmental officials to follow when carrying out environmental reviews, with specific time frames and that allows for discretion on the part of personnel to determine whether updates are necessary; • plan land surveys so that they are undertaken to allow selected land to be converted to reserve status in a timely manner; and • develop a co-ordinated strategic plan so that the required environmental reviews and land surveys do not hold up conversion of land to reserve status. **(7.33-7.35)**	Indian and Northern Affairs Canada will make available, on its Web site by April 2006, Chapter 12 of the *Lands Management Manual* that will be dedicated to environmental management. This chapter will include a clearly articulated policy on what will be considered a "stale dated" environmental site assessment. This policy will be based on appropriate principles, such as the use of discretion and risk management when assessing whether individual land selections require environmental reassessment. Prior to the start of each fiscal year, regional offices will develop annual operational plans within their broader strategic plans that deal with the timing of land surveys and environmental assessments. To the extent possible, the land surveys and environmental assessments will be planned so that they are carried out simultaneously, especially on land parcels in remote locations.
7.46 Indian and Northern Affairs should work with First Nations to assist them in their efforts to resolve third-party interests. This should include • building on initial efforts, and identifying and educating stakeholders that typically have third-party interests and educating them on what treaty land entitlement involves and how it affects them; • identifying systemic barriers to resolving recurring third-party interests and providing information to First Nations on possible strategies and actions to address them; and	Indian and Northern Affairs Canada will increase activities related to joint education and information sessions between First Nations, provinces, and other interests such as municipalities. This will include building on the best practices realized through the Saskatchewan treaty land entitlement processes as well as the ongoing work of the Federation of Canadian Municipalities in this area. The Department will further develop practical tools, such as case studies that identify systemic challenges and examples of how these have been successfully addressed. The treaty land entitlement settlement agreements included the creation of First Nations dispute resolution entities in some cases. These entities were mandated to assist First Nations signatories to the agreements in their negotiations with third-party interests. The Department has began meeting with these First Nations dispute resolution entities on a regular basis to facilitate First Nations' access to and use of these mechanisms.

Recommendation	Department's response
• encouraging the use of dispute resolution mechanisms set up under treaty land entitlement agreements to help resolve third-party interests. **(7.37-7.45)**	
7.59 Indian and Northern Affairs Canada should develop and implement a consistent approach to ensure that its land selection files are properly organized and contain documentation required to facilitate conversion. **(7.53-7.58)**	Indian and Northern Affairs Canada will develop an appropriate and consistent file management practice over the coming months, and implement it in the future.
7.60 Indian and Northern Affairs Canada should develop a strategic management plan outlining how it will manage its operations to process selections within a reasonable period of time. This strategic plan should • include a projection of the ongoing workload (in terms of selections in process and selections expected in the future); • set out how the Department will process remaining selections, which are often complex; • set out resources required (people and financial resources); and • track the information needed to better plan and report the results of its work. **(7.53-7.58)**	Working with First Nation partners, the Department's regional offices will develop long-term strategic plans that include various operational (annual) components. The plans will be subject to periodic review and adjustment and will include time targets and performance measures. These strategic plans will be in place by December 2006, with the operational planning components coming into effect incrementally along the way.

Recommendation	Department's response
7.65 Indian and Northern Affairs Canada should • take steps to ensure that treaty land entitlement data are complete and accurate; • develop and implement a file-tracking system that can provide accurate information on results achieved (for example, number of acres selected, number of acres converted). The file-tracking system should be designed to flag barriers and risks to individual files so that remedies may be introduced and files can be completed in a timely and efficient fashion; and • regularly provide information needed to process selections to those involved in the process, including entitlement First Nations and provincial governments. **(7.61-7.64)**	Indian and Northern Affairs Canada will develop a horizontal database/electronic management system based on the integration of a variety of modules, including a redesigned Additions to Reserves module. When fully operational, by 1 April 2009, this database/electronic management system will allow for optimal information retrieval as well as daily operational management of files. A number of incremental phases will be required. In the first year of development (2006–07), the data integrity of information contained in existing databases and paper files will be verified. At the same time, the project plan and system architecture plan will be developed. By the end of the second year (2007–08), paper records will be converted to electronic media, and existing modules will be appropriately reworked and some horizontally integrated. The third year (2008–09) will be the final system construction year. Over of the year, the system will be tested. Upon completion of successful testing, the system will be deployed by the end of the year.
Monitoring and reporting of results to Parliament	
7.68 Indian and Northern Affairs should periodically include in its performance report to Parliament • results information on meeting its legal obligations for treaty land entitlement, including costs, numbers of acres selected, and acres converted to reserve status; and • an update on its efforts to reduce the time taken to convert selected land to reserve status. **(7.66-7.67)**	Indian and Northern Affairs Canada is committed to providing relevant performance information to Parliament on treaty land entitlement. It will do so in its next departmental performance report and then periodically, every three years.

Department's overall response

Canada is committed to honouring its lawful obligations to First Nations and resolving outstanding grievances to the benefit of all Canadians. By addressing historic injustices that undermine trust and co-operation, strong partnerships among Aboriginal people, governments, and non-Aboriginal communities are emerging. The settlement of specific claims, such as those that have resulted in treaty land entitlement settlement agreements in Manitoba and Saskatchewan, assists in building these partnerships and spurs economic development on-reserve and in surrounding communities. Investments in this area have so far yielded tangible benefits for First Nations and for provincial and local governments.

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Report of the Auditor General of Canada to the House of Commons—November 2005

Main Table of Contents

Matters of Special Importance—2005
Main Points—Chapters 1 to 8

Chapter 1 Royal Canadian Mounted Police—Contract Policing

Chapter 2 The Quality and Reporting of Surveys

Chapter 3 Canada Revenue Agency—Verifying Income Tax Returns of Individuals and Trusts

Chapter 4 Managing Horizontal Initiatives

Chapter 5 Support to Cultural Industries

Chapter 6 Elections Canada—Administering the Federal Electoral Process

Chapter 7 Indian and Northern Affairs Canada—Meeting Treaty Land Entitlement Obligations

Chapter 8 Other Audit Observations

Appendices

2005

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to the House of Commons

NOVEMBER

Chapter 8
Other Audit Observations

Appendices

Office of the Auditor General of Canada

The November 2005 Report of the Auditor General of Canada comprises Matters of Special Importance—2005, Main Points—Chapters 1 to 8, eight chapters, and appendices. The main table of contents is found at the end of this publication.

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Table of Contents

Chapter 8—Other Audit Observations 1

Main Points 3

The Canadian International Development Agency
The Agency acted responsibly to deal with the tsunami disaster relief 5

Transport Canada—The Quebec Bridge
A solution is needed in the restoration and maintenance of the Quebec Bridge 15

Parc Downsview Park Inc.
Progress in the transfer of Downsview lands and financing of future operations 21

The *Employment Insurance Act*
The process for setting premium rates has been changed 24

Appendices

A. *Auditor General Act* 29

B. Reports of the Standing Committee on Public Accounts to the House of Commons, 2004–05 41

C. Report on the audit of the President of the Treasury Board's report *Tabling of Crown Corporations Reports in Parliament* 42

D. Costs of Crown corporation audits conducted by the Office of the Auditor General of Canada 44

Chapter

8

Other Audit Observations

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Other Audit Observations

Main Points

What we examined

Each year we audit the financial statements of the Government of Canada, most Crown corporations, and other organizations. Other Audit Observations discusses specific matters that have come to our attention in the course of that work or our performance audit work. This chapter includes four such observations, involving the Canadian International Development Agency (CIDA), Transport Canada, Parc Downsview Park Inc., and the *Employment Insurance Act*.

Because these observations deal with specific matters, they should not be applied to other related issues or used as a basis for drawing conclusions about matters we have not examined.

Why it's important

We may report a specific observation for any of several reasons. Generally, the issue is timely and signals the possibility of a larger systemic matter. It may involve a significant amount of public money, and it may raise a question of compliance with laws or regulations. Whatever the reason, each observation in this chapter concerns a matter that we think warrants Parliament's attention in the current Report.

What we found

- **CIDA—Tsunami disaster relief.** In the middle of the tsunami disaster in Southeast Asia, the Agency provided emergency relief and also successfully launched a matching-funds program. It has generally managed its grant agreements well and has established a satisfactory accountability framework for this five-year program. The Agency was unable to spend all its initial tsunami funds before the financial year end and spent about $69 million of the funds on other activities. It plans to redirect the same amount from its regular 2005–06 budget back to tsunami relief. Credible and candid reporting of the results of its tsunami aid activities will be important in the future.

- **Transport Canada—The Quebec Bridge.** In 1993, Transport Canada signed an agreement with the Canadian National Railway Company (CN), transferring the Quebec Bridge to CN (a Crown corporation at that time). In 1997 Transport Canada, CN, and the

Government of Quebec signed a $60 million agreement for the restoration of the bridge over 10 years. Today, the restoration of this important regional transportation infrastructure, a national historic site, is only partly completed. It will not be completed within the timeline and budget established in the agreement. Major issues remain regarding the financing of the rest of the restoration work in the years to come. Transport Canada needs to act to ensure the long-term viability of the Quebec Bridge.

- **Parc Downsview Park Inc.—The transfer of Downsview lands and financing of future operations.** The government has prepared the way to obtain Parliament's approval for the transfer of 227.65 hectares of Downsview lands to Parc Downsview Park Inc. The government has also authorized that the lands then be used to generate revenue that will finance the creation of an urban recreational green space. If implemented, these decisions will resolve matters we have previously reported to Parliament.
- **The *Employment Insurance Act*—A new rate-setting process.** For the past six years we have raised concerns about compliance with the intent of the *Employment Insurance Act*—specifically, the process for setting Employment Insurance (EI) premium rates and its impact on the size and growth of the accumulated surplus in the EI Account. A recent amendment to the Act means that as of 2006, the rate-setting process will change so the premium rate each year will generate just enough revenue to cover the costs of the program. The Account will continue to record program revenues and expenses, but the accumulated surplus is no longer to be considered in calculating the break-even premium rate.

The Canadian International Development Agency

The Agency acted responsibly to deal with the tsunami disaster relief

In brief

We assessed the Canadian International Development Agency's efforts to deal with the tsunami disaster in Southeast Asia. As the full scope of the disaster emerged, the Canadian government committed $425 million toward a five-year comprehensive response. These funds were to be used for humanitarian aid, rehabilitation, and reconstruction initiatives in the most affected countries, particularly Sri Lanka and Indonesia.

Many Canadians supported tsunami relief efforts. Twenty-seven non-governmental organizations raised $213 million, which was eligible for matching funds from the government. By the end of June 2005, the Agency had disbursed $90.6 million in matching funds and an additional $37.6 million in immediate assistance to eligible organizations. In addition, Canada is working with the provinces and municipalities to support their involvement in providing technical assistance in the reconstruction process.

Our audit found the following:

- The Agency successfully launched a new matching-funds program in the middle of the emergency.
- Grant agreements were generally well managed.
- The Agency's accountability framework is satisfactory. In this first year of a five-year program, the Agency's approach seems to be headed in the right direction.
- The Agency was unable to spend its initial tsunami relief funds before the 2004–05 year-end and spent about $69 million intended for tsunami relief on non-tsunami activities. It plans to compensate for this by directing $69 million from its regular 2005–06 budget to tsunami relief and will need to report to Parliament on how it directed the funds and on its tsunami aid activities.

Audit objective

8.1 Our objective was to determine whether the Canadian International Development Agency, in responding to the tsunami disaster, had

- matched the funds contributed by Canadians and spent the funds as intended, within the authority granted by Parliament;

- put in place an accountability framework that adequately defined roles, responsibilities, and expected results for its tsunami relief program; and
- co-ordinated relief efforts between different governments and relief agencies.

Our examination ended on 29 July 2005.

Background

The tsunami and Canada's response

8.2 The earthquake that struck under the Indian Ocean on 26 December 2004, triggered a massive tsunami that affected countries throughout the region. According to the International Red Cross, the tsunami left 280,000 people dead or missing, and displaced more than one million from their homes in South and Southeast Asia.

8.3 Within hours of the disaster, Canada promised immediate assistance. As the full scope of the crisis emerged, the Canadian government allocated $425 million toward a comprehensive response to the tsunami devastation in South and Southeast Asia. The federal funding was originally allocated in the following manner:

- an initial $265 million for the 2004–05 fiscal year, and
- an additional $160 million over the following four years.

Of the $425 million, the Canadian International Development Agency is managing 90 percent or $383 million. The government had originally planned to spend an estimated $150 million for a program that would match, dollar for dollar, the generous contributions made by Canadians between 26 December 2004 and 11 January 2005.

8.4 The funds were to be

- used for humanitarian aid, rehabilitation, and reconstruction;
- used for debt relief in the affected countries;
- used, over five years, in the most affected countries—particularly Sri Lanka and Indonesia; and
- determined by the needs and priorities identified by affected countries.

Issues

Co-ordinating efforts is a challenge

8.5 The major challenge for the tsunami relief effort was, and still is, co-ordination. People and organizations all over the world responded impressively to the tsunami disaster, donating funds to multilateral groups working in the affected area. Adding to the co-ordination challenge were

- the many different types of donors that wanted to help—individuals, businesses, and different levels of government;
- the unsolicited supplies that arrived in the affected countries and hindered the routing of more urgently needed supplies;
- the many aid agencies that rushed to the tsunami-hit communities;
- the fact that two of the hardest hit areas—in Indonesia and Sri Lanka—are areas of civil unrest; and
- the disagreements between governments and rebel groups that made it more difficult to send aid to affected communities, in those two countries.

8.6 The Agency's efforts have been part of a "whole of government" approach, and the Agency has been working with many other federal organizations, led by Foreign Affairs Canada. During our audit, both Foreign Affairs Canada and Agency officials indicated that lessons learned during the relief response to Hurricane Mitch, in 1999, made dealing with the tsunami less difficult. For example, standard operating procedures had been established to deal with major disasters, and relief supplies had been prepared before any immediate need. In June 2005, the federal Interdepartmental Tsunami Task Force received a Public Service Award of Excellence. Exhibit 8.1 outlines the Agency's efforts at co-ordination.

The Agency was unable to spend its initial funds before the end of 2004–05

8.7 In addition to co-ordinating donations, donors—including the Government of Canada—must make sure that donations for emergency relief are timely. The government anticipated that it would spend $265 million from January to March 2005, of which the Agency would manage $223 million, and other government departments would manage $42 million. The government prepared supplementary estimates to fund the $223 million, and Parliament approved the related appropriation act on 22 March 2005.

8.8 The Agency was to spend $30 million on debt relief, $150 million for a matching-funds program, and $43 million for other emergency relief (Exhibit 8.2). This is a large amount of money to spend in such a short period even for an organization like the Agency, with an annual budget of almost $3 billion. The limited flexibility provided to departments and agencies to transfer funds appropriated by Parliament from one year to the next presents a significant challenge for the Agency in reacting to natural disasters.

8.9 By early January 2005, the Agency had put a matching-funds program in place, using its normal criteria for selecting non-governmental organization (NGO) agents for humanitarian aid in disaster situations. In order for the NGOs to qualify for the matching-funds program, they were required to provide audited statements of the amounts collected from the public for tsunami relief and to submit an

Exhibit 8.1 Agency efforts at co-ordinating the tsunami relief effort

According to Agency documents, it undertook the following co-ordination activities.

International

International system for emergencies. The Agency is part of an international system that responds to emergencies and includes

- the Office for the Coordination of Humanitarian Affairs (OCHA),
- the United Nations Joint Logistics Centre (UNJLC),
- a system for Consolidated Appeals, and
- accepted co-ordination structures and approaches to the provision of assistance during emergencies.

The Agency maintains, and provides financial support for, the co-ordination and development of these mechanisms, which helped the Government of Canada and the Agency respond to the tsunami. For example, the Agency provided funds to the operations of the UNJLC that responded to the tsunami.

Recipient government, international groups, and other donors. The Agency also maintains contact with recipient governments, international consultative groups, and other donors—notably those in the Organisation for Economic Co-operation and Development (OECD) that help to determine and co-ordinate development assistance. These groups helped to identify

- the parameters for the response to the tsunami,
- the collaboration needed between recipient governments and international donors, and
- the roles of civil society and the private sector.

The Agency's deployment of relief supplies was only approved after a field agency that could receive and distribute them made a request. The Agency mainly funded UN agencies through the consolidated UN Flash Appeal. The Agency carefully reviewed Canadian non-governmental organizations' (NGOs) proposals, even those not funded by the matching-funds program, according to international standards of disaster response, operating approaches, and co-ordination.

Domestic

Matching-funds program. The matching-funds program has been a key element of the Agency's co-ordination of Canadian tsunami efforts. The Agency has met many times with Canadian NGOs to discuss

- operating procedures;
- the link between the help offered and the help needed (or required); and
- other essential elements for successful programming in the affected areas—for example, a special meeting was held with Canadian NGOs to discuss issues such as code of conduct and government expectations in Indonesia.

Reconstruction strategies, created for Indonesia and Sri Lanka, also helped to co-ordinate Canadian efforts. These were published on the Agency's tsunami Web site immediately following approval and were distributed to the 27 NGOs eligible for matching funds. The Agency will use the strategies to direct bilateral reconstruction funding in these two countries and help co-ordinate the use of matching funds for reconstruction purposes.

Canadian provinces and territories willingly contributed their public sector expertise and had regular contact every two weeks with the Agency, through conference calls and visits. The Agency developed guidelines and principles with the provinces and territories to facilitate their contributions.

appropriate request for project approval to the Agency. However, many of the eligible NGOs were not able to submit requests before the end of the fiscal year.

8.10 In addition, the cost of debt relief in the affected countries remained undecided, pending international discussions aimed at developing a common approach to the issue of debt relief.

8.11 As a result, by 31 March 2005, the Agency had

- spent roughly $89 million on the matching fund proposals that it had received by year-end;
- made emergency grants of about $35 million to multilateral aid organizations from December 2004 to March 2005; and
- let the $30 million, earmarked for debt relief, lapse.

In the absence of any mechanism to carry any unspent portion of the $223 million forward into the following year, the Agency spent the remaining $69 million on other non-tsunami related programs (Exhibit 8.2).

8.12 Although the Agency's funding request to Parliament specified it was to be for tsunami aid, the actual wording of *Appropriation Act No. 4, 2004–2005* passed by Parliament did not specifically refer to tsunami aid and allowed the Agency considerable flexibility in how to spend the money. Agency officials told us that the $69 million was

Exhibit 8.2 Tsunami aid cash management during 2004–05

Funds	($ millions)
Available	
For debt relief	30
For matching program	150
For non-matching emergency relief	43
Total funds available in 2004–05	**223**
Used	
Lapsed at year-end—debt relief	30
Matching program	89
Non-matching emergency relief	35
Amount spent on other programs	69
Total funds used to 31 March 2005	**223**

spent on 2005–06 budgetary requirements that could be paid early and that amount would be freed from the 2005–06 budget to be spent on tsunami aid. In our view, in order to be fully accountable for the matching-funds program objectives, the Agency will need to report clearly to Parliament how it has spent funds received for tsunami aid, including the $69 million to be taken from its 2005–06 budget, and how it is currently funding all its tsunami-related activities.

Reallocation of funds required to match funds donated

8.13 The Government had expected that up to $150 million in donations would be eligible for the matching-funds program, but the total figure grew to $213 million, based on eligible donations made by Canadians between 26 December 2004 and 11 January 2005. To make up the difference between the $213 and $150 million, the Agency is planning to

- use $8 million in emergency relief money that it has not yet spent from its 2005–06 budget;
- request from Treasury Board and Parliament the $30 million, which was originally earmarked for debt relief and which had lapsed at the end of 2004–05; and
- use $25 million from its approved long-term 2005–09 reconstruction budget of $160 million to fund reconstruction projects submitted by NGOs, under the matching-funds program.

Total planned Agency spending for tsunami aid remains at $383 million over the five-year period.

The Agency set up the matching-funds program quickly

8.14 On 30 December 2004, the government announced that it would match donations made by individual Canadians to Canadian non-governmental organizations (NGOs) that were already responding to the disaster. The government initially provided a list of seven eligible NGOs, and the Agency later expanded the list to twenty-seven. The Agency reviewed submissions and accepted, as eligible, NGOs that met its humanitarian-aid criteria and could effectively deliver aid in the stricken area. In total, 72 NGOs applied to be eligible for the matching-funds program.

8.15 Following the announcement of the matching-funds program, a series of conference calls and meetings took place to determine how to manage the program. At this point, the Agency was already choosing its NGO partners. All this activity took place in a few weeks in late

December 2004 and January 2005. However, when the Agency set up the program and communicated the eligibility requirements and selection process to the NGOs, there was some confusion for the Agency and NGOs coming into the process. For example, several NGOs that were on the ground and involved in responding to the disaster were determined to be ineligible for matching funds. These NGOs were close to qualifying but could not meet all the criteria at the time that the Agency was making its decisions. Some NGOs were uncertain about how to demonstrate that they met the criteria. We found that the Agency did not fully communicate the reasons for its eligibility decisions to NGOs during the early days of the program.

8.16 After reviewing the files and discussing them with Agency staff, we concluded that officials made reasonable selections. The early confusion that surrounded the NGO selection was a direct result of having to launch a new matching-funds program in the middle of a humanitarian-aid crisis. There was too much to do and not enough time to do it.

Grant agreements were generally well-managed

8.17 We also examined whether the Agency is effectively managing the grants that are going to relief operations under the matching-funds program. The Agency is planning to use both grant and contribution agreements to fund tsunami aid. We examined 13 relief grant agreements, with a total value of roughly $90 million. We did not examine any contribution agreements for rehabilitation and reconstruction, as few such agreements were in place at the time of our audit.

8.18 We found that generally, the Agency managed the grants well and that the approved projects addressed most of the key program objectives. For example

- the funded projects delivered humanitarian relief assistance that focussed on short-term and temporary interventions and that addressed basic immediate needs for health, clean water, sanitation, and shelter;
- projects met the maximum one-year duration and had reporting stipulations and agreement provisions for the return of any funds not spent as intended; and
- the Agency documented its financial control of matching-funds program money, and those documents reflected appropriate signing authority related to key sections of the *Financial Administration Act*.

8.19 We also expected that the grant agreements would explicitly tie the NGO recipients to all the terms of the matching-funds program. Treasury Board approved the Agency program where each NGO would formally agree to

- account for the funds it had raised,
- manage the results, and
- only use the funds in tsunami-affected areas.

The grant agreements that we looked at addressed most terms of the program. However, the agreements did not commit the NGO recipients to inform the Agency about how the funds were spent and whether the NGOs only spent the funds they collected from the public in tsunami-affected areas. The Agency needs this detailed information to demonstrate the program requirement to spend only in tsunami-affected areas. The Agency intends to ask the recipient NGOs to include in their annual reports details of their tsunami-related spending. This information would likely be useful to the Agency and others for aid co-ordination efforts in the tsunami-stricken areas.

Accountability framework

8.20 Our audit examined whether the overall framework of the tsunami relief program adequately defined the roles, responsibilities, and expected results. We found that there were two frameworks in place. The first was an overall framework that was

- put in place by the government,
- expected to be applied by all federal organizations that were dealing with the disaster, and
- expected to be managed through the Privy Council Office (PCO).

The overall framework calls for Foreign Affairs Canada to take the lead and other departments to co-ordinate their efforts under their own mandates. Federal organizations, including the Agency, were expected to self-assess their accomplishments as they proceeded, and overall reports would be made to the government.

8.21 Under the overall framework, the Agency developed the second framework that applied only to its operations—from the Agency's terms and conditions approved by Treasury Board. We found that the Agency's approach is satisfactory; the following are specific details of what we found:

- The Agency centralized roles and responsibilities with a multi-branch co-ordination committee. This committee has a clear mandate to provide oversight and accountability, develop guidelines and criteria for various proposals, review all projects, and co-ordinate all tsunami-related communications.

- The Agency defined its overall expected results for its humanitarian relief operations in tsunami-affected areas and for reconstruction in Sri Lanka and Indonesia.
- The Agency took most of its management framework for the tsunami work from its existing program structure. Its accountability framework, which applies to humanitarian emergency aid, states that the Agency is committed to results-based management. This means defining realistic expected results, monitoring with appropriate performance indicators, managing risks, and reporting on results and resources used. To meet these requirements, the Agency's grant agreements quantified expected results.
- The Agency is monitoring its own activities and is learning from its performance, including ways to improve any future matching-funds programs and communications with the public and other government departments.
- The Agency has not obtained formal agreements from NGOs that they would provide detailed reporting on the tsunami appeal. The government expects such information to be reflected in Agency reports. The Agency intends to ask the recipient NGOs to include this information in their upcoming annual reports.

8.22 The Agency's approach seems headed in the right direction in this first year of a five-year program. Credible and candid reporting on program results to Parliament and to the public will also be an important element of the Agency's accountability.

Conclusion

8.23 The Agency has moved forward to match contributions made by individual Canadians and to co-ordinate its efforts with many groups. So far, the Agency has adequately managed its grants to NGOs.

In addition, our audit found the following:

- The Agency was able to launch successfully a new matching-funds program in the middle of the emergency.
- The Agency's accountability framework is satisfactory.

- The Agency was unable to spend its initial tsunami funds before the end of 2004–05. To free up funding for the new fiscal year, the Agency spent $69 million intended for tsunami relief on non-tsunami-related activities in the 2004–05 fiscal year. The Agency plans to compensate by directing $69 million from its regular 2005–06 budget to tsunami relief and will need to report to Parliament on how it has directed the funds and on its tsunami aid activities.

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Transport Canada—The Quebec Bridge

A solution is needed in the restoration and maintenance of the Quebec Bridge

In brief

Designated a national historic site in 1996 by the Minister of Canadian Heritage, the Quebec Bridge is an essential transportation infrastructure for the Quebec City region.

In 1993, Transport Canada signed an agreement with the Canadian National Railway Company (better known as Canadian National or CN), in which it transferred the Quebec Bridge and lands in various parts of the country to the Crown corporation, for one dollar. Under the transfer agreement, CN committed to compensating Canada for its financial obligations related to the Intercolonial and Prince Edward Island Railways Employees' Provident Fund, being responsible for all costs associated with the cleanup of any contaminants on lands transferred, and funding a major restoration program for the bridge. The restoration program, which includes the installation and maintenance of architectural lighting, was intended to restore the structure to a condition that would ensure its long-term viability and that would be maintained.

In 1995, the government privatized CN by means of a public share issue. In 1997, the governments of Canada and Quebec agreed to make a financial contribution to CN for the purpose of restoring the Quebec Bridge between 1997 and 2006.

The announced restoration program had two phases. The first phase, the restoration of the structure and cleaning of the structural components, was completed in 1999. However, we found that cost increases and significant delays affected the second phase (sanding, cleaning, and painting), so that the amounts forecast in the 1997 agreement will be enough to complete only 40 percent of the planned work. Major issues remain regarding the financing of the remainder of the restoration work in the years to come. Transport Canada needs to take action that will ensure the long-term viability of the Quebec Bridge.

Audit objective

8.24 Our audit objective was to determine whether, at the time of the Quebec Bridge transfer in 1993 and the 1997 funding agreement, Transport Canada had applied management principles that protected the interests of Canadian taxpayers and ensured the long-term viability of this essential infrastructure.

Background

8.25 The longest cantilever bridge in the world, the Quebec Bridge was built between 1910 and 1917 by the Government of Canada to link the two shores of the St. Lawrence River at Quebec City. Originally consisting of one span with two railway tracks, two sidewalks, and an unused space in the middle, it was used solely for rail traffic for 12 years. In 1923, the federal government assigned the management and maintenance of the bridge to the Canadian National Railway Company (better known as Canadian National or CN), which was a new Crown corporation at that time.

The Quebec Bridge at night.

8.26 In 1928, the Government of Canada signed an agreement with the Government of Quebec authorizing the province to build a roadway on the bridge. A second agreement was signed in 1949 for work to widen this road. Under this long-term lease agreement, the Government of Quebec agreed to pay $25,000 per year until 2012. In addition, the Government of Quebec became responsible for maintaining the road surface, approaches, and pedestrian walkway.

8.27 Declared an international historic monument to civil engineering in 1987 and designated as a national historic site by the Minister of Canadian Heritage in 1996, the Quebec Bridge represents an essential transportation infrastructure for the Quebec City region.

8.28 The bridge consists of a steel structure that requires ongoing maintenance. In recent decades, rust has gradually settled in. Toward the end of the 1980s, various interest groups in the Quebec City region began to express concerns about the deterioration of the structure and the poor appearance of the bridge.

8.29 Over the years, road traffic on the bridge has increased substantially. This led to many discussions over the years between the Government of Canada, the Government of Quebec, and CN regarding the division of responsibility for restoring and maintaining the bridge.

8.30 In the early 1990s, the federal government undertook various initiatives to commercialize certain assets in the transportation sector. In July 1993, Transport Canada signed an agreement with CN whereby it transferred to the Crown corporation, for one dollar, all rights, titles, and interests in, and to the Quebec Bridge and other lands CN used in various parts of Canada. The federal government had begun to acquire these lands in 1870 and had assigned the management and operation of these lands to CN in 1923. According to Transport Canada, the government had transferred 78,300 acres of land, 80 percent of which was designated for railway use. CN estimated the total value of these lands at $104.2 million at the time of the transfer. The 63,000 acres used expressly for railways, particularly lands used for right-of-way, stations, and marshalling yards, were valued at an estimated $69.7 million, while the 15,300 acres not required for railway activities were estimated to be worth $34.5 million.

8.31 Under the 1993 transfer agreement, CN agreed to compensate the Government of Canada for its financial obligations related to the Intercolonial and Prince Edward Island Railways Employees' Provident Fund, be responsible for all costs associated with the cleanup of any contaminants on lands transferred, and fund a major maintenance program on the bridge. The program included the installation and maintenance of architectural lighting. This program was intended to restore the structure to a condition that would ensure its long-term viability and that would be maintained. The agreement also provided that CN would attempt to reach an agreement with the Province of Quebec to co-fund the maintenance program, without limiting CN's obligations.

8.32 An engineering firm that carried out a study in 1995 estimated the cost of the bridge restoration work at more than $60 million. According to the study's authors, the bridge was in good shape for its age, but essential repair work needed to be done within five years to avoid the deterioration becoming irreversible. It was also suggested that preventive annual maintenance be done to preserve the structure over the long term.

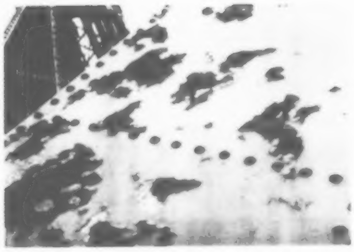
8.33 In 1995, the government privatized CN by means of a public share issue. After negotiations on financing the Quebec Bridge restoration, an agreement was signed in early 1997 between CN and the two levels of government. The 1997 agreement called for a restoration program of $60 million spread over 10 years to ensure the long-term viability of the bridge. CN assumed 60 percent of the cost ($36 million); the Government of Quebec, 30 percent ($18 million); and Transport Canada, 10 percent ($6 million).

8.34 The announced restoration program had two phases. Restoration of the structure and cleaning of the structural components were to be done from 1997 to 1999, while sanding, cleaning, and painting were scheduled to take place from 1999 to 2006. Due to the length of time involved and the cost of the work, the second phase made up the largest part of the program.

Issues

The bridge restoration work will not be completed within budget and on time

8.35 The first phase of the work was completed according to the established schedule, and painting began in 1999 as planned. However, a number of problems and new environmental requirements have increased costs and delayed work considerably. Transport Canada told us that only about 40 percent of the structure will be painted when the agreement expires in 2006. On a site visit, we were able to see that there was a problem with corrosion on the unrestored part of the bridge and that the paint was in poor condition.



There is a problem with corrosion on the unrestored part of the bridge and the paint is in poor condition.

8.36 In its report produced in April 2003, the internal audit services of Transport Canada reported that a cost estimate suggests that the restoration program will be more costly than expected in the 1997 agreement and that there is a chance that the work will not be completed according to the agreement's provisions because of a lack of funding. The remainder of the work could cost more than $60 million. For its part, CN indicated a few years ago to Transport Canada that it did not intend to spend more money on restoring the Quebec Bridge and that it considered that it had fully complied with the agreement negotiated in 1997 with the governments of Canada and Quebec, which sets out each party's contribution to the bridge's restoration. At the time of writing this report, the financing of the remainder of the restoration work was still under discussion between Transport Canada and CN.

8.37 The difference of view between Transport Canada and CN is in large part based on their different interpretations of provisions of the 1993 and 1997 agreements. In particular, it is CN's position that the 1997 Agreement specifically annulled and replaced the 1993 Agreement. CN, therefore, takes the position that any obligation to maintain the Quebec Bridge should be described by reference to the 1997 Agreement. It is Transport Canada's position that CN is responsible for the long-term viability of the Quebec Bridge as per the 1993 Agreement.

Transport Canada did not follow some management principles when it entered into the 1993 and 1997 agreements

8.38 When an agreement to transfer a public good is signed, management principles require, among other things, the establishment of specific objectives, an analysis of the value of the assets transferred and the anticipated benefits, determination of the project's inherent risks, and control procedures designed to ensure risk management and compliance with commitments. In our view, Transport Canada did not follow these principles before signing the transfer agreement in 1993.

8.39 The Department was unable to indicate to us what its objectives were in transferring the Quebec Bridge and various lands to CN. Similarly, it was unable to demonstrate that this project complied with a long-term management policy for federally owned bridges. In addition, it could not provide analysis of the benefits it hoped to derive from this transaction. We also found that Transport Canada did not sufficiently analyze the risks inherent in transferring an essential transportation infrastructure to a Crown corporation that would be privatized two years later, and that the 1993 and 1997 agreements contain no procedures for managing these risks. Such an analysis would have been helpful to demonstrate that Canadian taxpayers' interests were protected when entering into these agreements.

Conclusion

8.40 More than 10 years after the Quebec Bridge was transferred to CN, the restoration work on this important regional transportation infrastructure, which was designated a national historic site, is only partly completed. Major issues remain regarding the financing of the rest of the restoration work in the years to come. Transport Canada needs to take action that will ensure the long-term viability of the Quebec Bridge.

Transport Canada's comments. It is Transport Canada's position that CN is responsible for the long-term viability of the Quebec Bridge as per the 1993 agreement. The 1993 agreement is clear that "CN shall undertake to fund a major maintenance program on the Bridge … which shall restore this structure to a condition which shall ensure its long-term viability and ensure it is maintained in this state." Transport Canada intends to ensure that CN fully complies with the requirements of the 1993 agreement as well as the requirements of the 1997 tripartite agreement pertaining to the restoration program for the Quebec Bridge.

For the last fifteen years Transport Canada's policy has been to divest itself of the operations of the transportation system. In the case of the Quebec Bridge and other Canadian Government Railway (CGR) lands, the Government transferred the lands to CN, a Crown Corporation, which had been entrusted the lands for management and operation since 1923. The full value of CN, including the CGR lands, was realized by Canadian taxpayers through the privatization of CN in 1995.

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Parc Downsview Park Inc.

Progress in the transfer of Downsview lands and financing of future operations

In brief

In our November 2004 Report to Parliament we indicated that the government had not yet resolved the issues related to the transfer of the Downsview lands from National Defence to Parc Downsview Park Inc. and to the financing of the Corporation's future operations. We reported that the Corporation's ability to fulfil its mandate to develop and operate an urban recreational green space on a self-financing basis was dependant on resolving these issues.

In May 2005, the government reconfirmed its previous decision to use a portion of Downsview lands for the development of a park and gave its approval to the Minister of National Defence and the Minister of State (Infrastructure and Communities) to transfer 227.65 hectares of Downsview lands to the Corporation by December 2005, and to obtain Parliament's approval to execute the transfer of the lands. The government also authorized that the lands be used to generate revenue to finance the creation of an urban recreational green space for the enjoyment of future generations.

The Corporation and Infrastructure Canada informed us that the Governor in Council has approved a Corporate Plan for the period from 2005–06 to 2009–10 and that the Treasury Board approved a related submission that will be used to implement the government's decisions.

These decisions, if implemented, would resolve the matters that we have previously brought to Parliament's attention. Notably, Parliament's approval for the transfer of Downsview lands and the financing of the park would be obtained.

Audit objective

8.41 Our objective was to assess the progress made by the government in addressing our concerns raised in our November 2004 Report to Parliament about the transfer of Downsview lands and the future funding of Parc Downsview Park Inc.

Background

8.42 Downsview Park was established following the closure of the Canadian Forces Base in Toronto announced in the government's 1994 Budget. The National Defence budget impact paper referred to in the Budget indicated, "[the] Downsview site will be held in perpetuity and in trust primarily as a unique urban recreational green space for the enjoyment of future generations."

In November 1995 the government approved, in principle, the use of about 243 hectares (600 acres) of Downsview land for development of the park based on the following principles:

- the retention of more than one-half of the site as parkland;
- the ability to be "self-financing" from sources outside federal appropriations, including the ability to borrow funds from the private sector;
- the capability to raise and retain other qualifying revenues and to form corporate relationships with third parties for this purpose;
- the operation of the land would be based on a "trust concept," recognizing the special nature of the land; and
- the accommodation of a continuing military presence.

8.43 In April 1997, the government issued an order-in-council authorizing Canada Lands Company Limited (Canada Lands), a Crown corporation, to set up a subsidiary corporation that would develop an urban recreational green space on a self-financing basis for the enjoyment of future generations. Canada Lands incorporated CLC Downsview Inc. (now Parc Downsview Park Inc.) as a wholly-owned subsidiary Crown corporation in July 1998, and it began its operations in April 1999 following the appointment of its board of directors.

8.44 In our November 2004 Report we reported that the transfer of the Downsview lands from National Defence to Parc Downsview Park Inc. and the financing of the Corporation's future operations were issues that needed to be resolved to enable it to fulfil its mandate to create and operate an urban recreational green space on a self-financing basis.

Issues

8.45 On 19 May 2005, the government reconfirmed its previous decision to use part of the Downsview lands for the development of a park. It gave its approval to the Minister of National Defence and the Minister of State (Infrastructure and Communities), the Minister responsible for the Corporation, to transfer to the Corporation by December 2005, 227.65 hectares out of the 243 hectares of Downsview lands that were originally intended to be transferred. The government authorized the Minister of State (Infrastructure and Communities), to seek approval from Parliament for a one-time appropriation for the Corporation to purchase the lands. The government also authorized that the lands then be used to generate revenue to finance the creation of an urban recreational green space.

8.46 The Corporation and Infrastructure Canada informed us that the Governor in Council has approved a Corporate Plan for the period from 2005–06 to 2009–10 and that the Treasury Board approved a related submission that will be used to implement the government's decisions. They also informed us that the ministers concerned intend to seek Parliament's approval for the transfer through the supplementary estimates process in the fall of 2005. The intent is to transfer the lands at their current book value, which is the normal practice for transactions between related government entities. The book value of the lands to be transferred is $2.49 million. The request for approval of this appropriation will also indicate that the fair value of the lands being transferred is estimated to be $152 million according to a recent appraisal.

Conclusion

8.47 If the government's decisions of May 2005 are implemented, matters that we have previously brought to Parliament's attention would be resolved. Notably, Parliament's approval for the transfer of the Downsview lands and the financing of the park would be obtained.

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The *Employment Insurance Act*

The process for setting premium rates has been changed

In brief

For the past six years, we have drawn Parliament's attention to our concerns about the government's compliance with the intent of the *Employment Insurance Act*, with respect to the setting of employment insurance premium rates and its impact on the size and growth of the accumulated surplus in the Employment Insurance Account. The accumulated surplus in the Account increased by an additional $2 billion in 2004–05 to reach $48 billion by the end of March 2005.

In June 2005, the Act was amended to reflect a new rate-setting process, beginning with the 2006 premium rate. The new process is based on the principle that the premium rate for a year should generate just enough premium revenues during the year to cover the expected program costs for that year. Under the previous provisions, the accumulated surplus of the Account was to be taken into account when premium rates were set. With the amendments, the Account will continue to record program revenues and expenses, but the accumulated surplus is no longer to be considered when calculating the break-even premium rate.

Audit objective

8.48 Our objective was to report new developments related to the concerns we had raised in previous years.

Background

8.49 From 1997 to 2001, premium rates were established according to section 66 of the *Employment Insurance Act*. Section 66 required that, to the extent possible, the premium rate be set to provide enough revenue over a business cycle to pay amounts authorized to be charged to the Employment Insurance Account, while maintaining relatively stable rates. In our view, this meant that Employment Insurance premiums should equal expenditures over a business cycle and provide a sufficient reserve to keep rates stable in an economic downturn. The legislation also made it necessary for the Canada Employment Insurance Commission to make certain key decisions, such as how it would define "business cycle" and "relatively stable rates."

8.50 In May 2001, the Act was amended to suspend section 66 for 2002 and 2003 and to give the Governor in Council the authority to set the rates for those two years.

8.51 In 2003, the government announced that it would conduct consultations on a new rate-setting process and would introduce legislation to implement a new process for 2005. In the 2004 Budget, the government noted that it was reviewing the results of the consultations and still planned to introduce legislation for 2005.

8.52 Section 66 was further suspended for 2004 and 2005, and the rates for those years were set according to the 2003 and 2004 Budget legislation.

8.53 In his 2001 report, the Chief Actuary of Human Resources Development Canada estimated that a maximum reserve of $15 billion would be sufficient, at the onset of a recession, to cover additional program costs, prevent cumulative deficits, and allow stable premium rates over the business cycle. From 2002 to 2005, when section 66 of the *Employment Insurance Act* was suspended, the Commission did not request another actuarial report.

8.54 Since 1999, when we first raised our concerns about the size and growth of the accumulated surplus in the Employment Insurance Account, the Account balance has increased from $21 billion to $48 billion, while the rates were reduced annually. At the end of March 2005, the accumulated surplus represented more than three times the maximum reserve considered sufficient by the Chief Actuary in his 2001 report.

Issues

Legislative amendments to the rate-setting process for premiums

8.55 In June 2005, with the passage of the 2005 *Budget Implementation Act*, the *Employment Insurance Act* was amended to establish a new rate-setting process, beginning with the 2006 premium rate. These changes are in line with the principles described by the government in the 2003 and 2004 budgets for a new rate-setting process for premiums.

- Rates should be set transparently and based on independent expert advice.
- Expected premium revenues should correspond to expected program costs.
- Rates should mitigate the impact on the business cycle and be stable over time.

8.56 Under the amended legislation, by 14 October of each year, the Chief Actuary is directed to provide a report on the premium rate for the next year to the Canada Employment Insurance Commission. The Chief Actuary is required to determine a premium rate for the year that should generate premium revenues that correspond to expected program costs for that year. This break-even rate is calculated on a "looking-forward" basis, which means that the Account surplus and the related interest credited to the Account balance are not part of the rate calculation.

8.57 The amended legislation provides that the Canada Employment Insurance Commission is to set the rate, taking into account the same principle that the premium rate should generate just enough revenue in the year to cover expected program costs for that year. The Commission is also required to take into consideration the Chief Actuary's report and any public input.

8.58 The Commission must make the Chief Actuary's report public. The premium rate cannot be increased or decreased by more than 15 cents for each $100 of insurable earnings from the previous year. A ceiling of $1.95 for each $100 of insurable earnings has been set for the premium rates for 2006 and 2007.

8.59 The Commission has until 14 November to set the premium rate for the next year. On the recommendation of the Minister of Human Resources and Skills Development and the Minister of Finance, the Governor in Council has until 30 November to set a different rate, if it believes that it is in the public interest to do so.

8.60 Under the previous provisions, the accumulated surplus of the Account was to be considered when setting premium rates. The principle underlying the new rate-setting process provides for rates to be established on a "looking-forward" basis at an annual break-even level. With these amendments, the Account will continue to record program revenues and expenses but the accumulated surplus is no longer to be considered when calculating the break-even premium rate.

Conclusion

8.61 In June 2005, the *Employment Insurance Act* was amended to reflect a new rate-setting process, beginning with the 2006 premium rate. The accumulated surplus in the Account is no longer to be considered when calculating the break-even premium rate.

Audit team

Assistant Auditor General: Nancy Cheng
Principal: Jean-Pierre Plouffe
Director: Lucie Cardinal

For information, please contact Communications at (613) 995-3708 or 1-888-761-5953 (toll-free).

Appendices

These appendices are published once a year, and serve as appendices for all the reports of the Auditor General for 2005.

Appendix A *Auditor General Act*

R.S.C., c. A-17
An Act respecting the Office of the Auditor General of Canada and sustainable development monitoring and reporting
1995, c. 43, s.1.

Short Title

Short title

1. This Act may be cited as the *Auditor General Act*. 1976–77, c. 34, s.1.

Interpretation

Definitions

2. In this Act,

"appropriate Minister"

"appropriate Minister" has the meaning assigned by section 2 of the *Financial Administration Act*;

"Auditor General"

"Auditor General" means the Auditor General of Canada appointed pursuant to subsection 3(1);

"category I department"

"category I department" means

(a) any department named in Schedule I to the *Financial Administration Act*,

(b) any department in respect of which a direction has been made under subsection 24(3), and

(c) any department set out in the schedule;

"Commissioner"

"Commissioner" means the Commissioner of the Environment and Sustainable Development appointed under subsection 15.1(1);

"Crown corporation"

"Crown corporation" has the meaning assigned to that expression by section 83 of the *Financial Administration Act*;

"department"

"department" has the meaning assigned to that term by section 2 of the *Financial Administration Act*;

"funding agreement"

"funding agreement", in respect of a corporation, means an agreement in writing under which the corporation receives funding from Her Majesty in right of Canada, either directly or through an agent or mandatary of Her Majesty, including by way of a loan, but does not include a construction contract, a goods contract or a service contract;

"not-for-profit corporation"

"not-for-profit corporation" means a corporation no part of whose income is payable to or otherwise available for the personal benefit of any of its members or shareholders;

"recipient corporation"

"recipient corporation" means any not-for-profit corporation, or any corporation without share capital, that has, in any five consecutive fiscal years, received a total of $100,000,000 or more under one or more funding agreements, but does not include any such corporation that is

(a) a Crown corporation,

(b) a departmental corporation as defined in section 2 of the *Financial Administration Act*,

(c) a municipality,

(d) a cooperative, other than a non-profit cooperative,

(e) a corporation that receives, on an ongoing basis, at least half of its funding from a municipality or the government of a province or of a foreign state, or from any agency of a municipality or any such government,

(f) a corporation that is controlled by a municipality or a government other than the Government of Canada, or

(g) an international organization;

"registrar"

"registrar" means the Bank of Canada and a registrar appointed under Part IV of the *Financial Administration Act*;

"sustainable development"

"sustainable development" means development that meets the needs of the present without compromising the ability of future generations to meet their own needs;

"sustainable development strategy"

"sustainable development strategy", with respect to a category I department, means the department's objectives, and plans of action, to further sustainable development. 1976–77, c. 34, s. 2; 1984, c. 31, s. 14; 1995, c. 43, s. 2.

Control

2.1 (1) For the purpose of paragraph (f) of the definition "recipient corporation" in section 2, a municipality or government controls a corporation with share capital if

(a) shares of the corporation to which are attached more than fifty per cent of the votes that may be cast to elect directors of the corporation are held, otherwise than by way of security only, by, on behalf of or in trust for that municipality or government; and

(b) the votes attached to those shares are sufficient, if exercised, to elect a majority of the directors of the corporation.

Control

(2) For the purpose of paragraph (f) of the definition "recipient corporation" in section 2, a corporation without share capital is controlled by a municipality or government if it is able to appoint the majority of the directors of the corporation, whether or not it does so.

Auditor General of Canada

Appointment and tenure of office

3. (1) The Governor in Council shall, by commission under the Great Seal, appoint a qualified auditor to be the officer called the Auditor General of Canada to hold office during good behaviour for a term of ten years, but the Auditor General may be removed by the Governor in Council on address of the Senate and House of Commons.

Idem

(2) Notwithstanding subsection (1), the Auditor General ceases to hold office on attaining the age of sixty-five years.

Re-appointment

(3) Once having served as the Auditor General, a person is not eligible for re-appointment to that office.

Vacancy

(4) In the event of the absence or incapacity of the Auditor General or if the office of Auditor General is vacant, the Governor in Council may appoint a person temporarily to perform the duties of Auditor General. 1976-77, c. 34, s. 3.

Salary

4. (1) The Auditor General shall be paid a salary equal to the salary of a puisne judge of the Supreme Court of Canada.

Pension benefits

(2) The provisions of the *Public Service Superannuation Act*, other than those relating to tenure of office, apply to the Auditor General except that a person appointed as Auditor General from outside the Public Service may, by notice in writing given to the President of the Treasury Board not more than sixty days after the date of his appointment as Auditor General, elect to participate in the pension plan provided for in the *Diplomatic Service (Special) Superannuation Act* in which case the provisions of that Act, other than those relating to tenure of office, apply to him and the provisions of the *Public Service Superannuation Act* do not apply to him. 1976–77, c. 34, s. 4; 1980–81–82–83, c. 50, s. 23, c. 55, s. 1.

Duties

Examination

5. The Auditor General is the auditor of the accounts of Canada, including those relating to the Consolidated Revenue Fund and as such shall make such examinations and inquiries as he considers necessary to enable him to report as required by this Act. 1976–77, c. 34, s. 5.

Idem

6. The Auditor General shall examine the several financial statements required by section 64 of the *Financial Administration Act* to be included in the Public Accounts, and any other statement that the President of the Treasury Board or the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have. 1976–77, c. 34, s. 6; 1980–81–82–83, c. 170, s. 25.

Annual and additional reports to the House of Commons

7. (1) The Auditor General shall report annually to the House of Commons and may make, in addition to any special report made under subsection 8(1) or 19(2) and the Commissioner's report under subsection 23(2), not more than three additional reports in any year to the House of Commons

(a) on the work of his office; and,

(b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Idem

(2) Each report of the Auditor General under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons, including any cases in which he has observed that

(a) accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;

(b) essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue and to ensure that expenditures have been made only as authorized;

(c) money has been expended other than for purposes for which it was appropriated by Parliament;

(d) money has been expended without due regard to economy or efficiency;

(e) satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented; or

(f) money has been expended without due regard to the environmental effects of those expenditures in the context of sustainable development.

Submission of annual report to Speaker and tabling in the House of Commons

(3) Each annual report by the Auditor General to the House of Commons shall be submitted to the Speaker of the House of Commons on or before December 31 in the year to which the report relates and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receiving it or, if that House is not then sitting, on any of the first fifteen days on which that House is sitting after the Speaker receives it.

Notice of additional reports to Speaker and tabling in the House of Commons

(4) Where the Auditor General proposes to make an additional report under subsection (1), the Auditor General shall send written notice to the Speaker of the House of Commons of the subject-matter of the proposed report.

Submission of additional reports to Speaker and tabling in the House of Commons

(5) Each additional report of the Auditor General to the House of Commons made under subsection (1) shall be submitted to the House of Commons on the expiration of thirty days after the notice is sent pursuant to subsection (4) or any longer period that is specified in the notice and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receiving it or, if that House is not then sitting, on any of the first fifteen days on which that House is sitting after the Speaker receives it. 1976–77, c. 34, s. 7; 1994, c. 32, s. 1 and 2; 1995, c. 43, s. 3.

Inquiry and report

7.1 (1) The Auditor General may, with respect to any recipient corporation, inquire into its use of funds received from Her Majesty in right of Canada and inquire into whether

(a) the corporation has failed to fulfil its obligations under any funding agreement;

(b) money the corporation has received under any funding agreement has been used without due regard to economy and efficiency;

(c) the corporation has failed to establish satisfactory procedures to measure and report on the effectiveness of its activities in relation to the objectives for which it received funding under any funding agreement;

(d) the corporation has failed to faithfully and properly maintain accounts and essential records in relation to any amount it has received under any funding agreement; or

(e) money the corporation has received under any funding agreement has been expended without due regard to the environmental effects of those expenditures in the context of sustainable development.

Report

(2) The Auditor General may set out his or her conclusions in respect of an inquiry into any matter referred to in subsection (1) in the annual report, or in any of the three additional reports, referred to in subsection 7(1). The Auditor General may also set out in that report anything emerging from the inquiry that he or she considers to be of significance and of a nature that should be brought to the attention of the House of Commons.

Special report to the House of Commons

8. (1) The Auditor General may make a special report to the House of Commons on any matter of pressing importance or urgency that, in the opinion of the Auditor General, should not be deferred until the presentation of the next report under subsection 7(1).

Submission of reports to Speaker and tabling in the House of Commons

(2) Each special report of the Auditor General to the House of Commons made under subsection (1) or 19(2) shall be submitted to the Speaker of the House of Commons and shall be laid before the House of Commons by the Speaker of the House of Commons forthwith after receipt thereof by him, or if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting. 1976–77, c. 34, s. 8; 1994, c. 32, s. 3.

Idem

9. The Auditor General shall

(a) make such examination of the accounts and records of each registrar as he deems necessary, and such other examinations of a registrar's transactions as the Minister of Finance may require, and

(b) when and to the extent required by the Minister of Finance, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities authorized to be destroyed under the *Financial Administration* Act,

and he may, by arrangement with a registrar, maintain custody and control, jointly with that registrar, of cancelled and unissued securities. 1976–77, c. 34, s. 9.

Improper retention of public money

10. Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of the case to the President of the Treasury Board. 1976–77, c. 34, s.10.

Inquiry and report

11. The Auditor General may, if in his opinion such an assignment does not interfere with his primary responsibilities, whenever the Governor in Council so requests, inquire into and report on any matter relating to the financial affairs of Canada or to public property or inquire into and report on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought. 1976–77, c. 34, s. 11.

Advisory powers

12. The Auditor General may advise appropriate officers and employees in the public service of Canada of matters discovered in his examinations and, in particular, may draw any such matter to the attention of officers and employees engaged in the conduct of the business of the Treasury Board. 1976–77, c. 34, s. 12.

Access to Information

Access to information

13. (1) Except as provided by any other Act of Parliament that expressly refers to this subsection, the Auditor General is entitled to free access at all convenient times to information that relates to the fulfilment of his responsibilities and he is also entitled to require and receive from members of the public service of Canada such information, reports and explanations as he deems necessary for that purpose.

Stationing of officers in departments

(2) In order to carry out his duties more effectively, the Auditor General may station in any department any person employed in his office, and the department shall provide the necessary office accommodation for any person so stationed.

Oath of secrecy

(3) The Auditor General shall require every person employed in his office who is to examine the accounts of a department or of a Crown corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department or Crown corporation.

Inquiries

(4) The Auditor General may examine any person on oath on any matter pertaining to any account subject to audit by him and for the purposes of any such examination the Auditor General may exercise all the powers of a commissioner under Part I of the *Inquiries Act*. 1976–77, c. 34, s.13.

Reliance on audit reports of Crown corporations

14. (1) Notwithstanding subsections (2) and (3), in order to fulfil his responsibilities as the auditor of the accounts of Canada, the Auditor General may rely on the report of the duly appointed auditor of a Crown corporation or of any subsidiary of a Crown corporation.

Auditor General may request information

(2) The Auditor General may request a Crown corporation to obtain and furnish to him such information and explanations from its present or former directors, officers, employees, agents and auditors or those of any of its subsidiaries as are, in his opinion, necessary to enable him to fulfil his responsibilities as the auditor of the accounts of Canada.

Direction of the Governor in Council

(3) If, in the opinion of the Auditor General, a Crown corporation, in response to a request made under subsection (2), fails to provide any or sufficient information or explanations, he may so advise the Governor in Council, who may thereupon direct the officers of the corporation to furnish the Auditor General with such information and explanations and to give him access to those records, documents, books, accounts and vouchers of the corporation or any of its subsidiaries access to which is, in the opinion of the Auditor General, necessary for him to fulfil his responsibilities as the auditor of the accounts of Canada. 1976–77, c. 34, s. 14.

Staff of the Auditor General

Officers, etc.

15. (1) Such officers and employees as are necessary to enable the Auditor General to perform his duties shall be appointed in accordance with the *Public Service Employment Act*.

Contract for professional services

(2) Subject to any other Act of Parliament or regulations made thereunder, but without the approval of the Treasury Board, the Auditor General may, within the total dollar limitations established for his office in appropriation Acts, contract for professional services.

Delegation to Auditor General

(3) The Auditor General may exercise and perform, in such manner and subject to such terms and conditions as the Public Service Commission directs, the powers, duties and functions of the Public Service Commission under the *Public Service Employment Act*, other than the powers, duties and functions of the Commission in relation to appeals under section 21 of that Act and inquiries under section 34 of that Act.

Suspension

(4) The Auditor General may suspend from the performance of his duty any person employed in his office. 1976–77, c. 34, s. 15; 1992, c. 54, s. 79.

Appointment of Commissioner

15.1 (1) The Auditor General shall, in accordance with the *Public Service Employment Act*, appoint a senior officer to be called the Commissioner of the Environment and Sustainable Development who shall report directly to the Auditor General.

Commissioner's duties

(2) The Commissioner shall assist the Auditor General in performing the duties of the Auditor General set out in this Act that relate to the environment and sustainable development. 1995, c. 43, s. 4.

Responsibility for personnel management

16. In respect of persons employed in his office, the Auditor General is authorized to exercise the powers and perform the duties and functions of the Treasury Board under the *Financial Administration Act* that relate to personnel management including the determination of terms and conditions of employment and the responsibility for employer and employee relations, within the meaning of paragraph 7(1)(e) and sections 11 to 13 of that Act. 1976–77, c. 34, s.16.

Classification standards

17. Classification standards may be prepared for persons employed in the office of the Auditor General to conform with the classifications that the Auditor General recognizes for the purposes of that office. 1976–77, c. 34, s. 18.

Delegation

18. The Auditor General may designate a senior member of his staff to sign on his behalf any opinion that he is required to give and any report, other than his annual report on the financial statements of Canada made pursuant to section 64 of the *Financial Administration* Act and his reports to the House of Commons under this Act, and any member so signing an opinion or report shall indicate beneath his signature his position in the office of the Auditor General and the fact that he is signing on behalf of the Auditor General. 1976–77, c. 34, s. 19.

Estimates

Estimates

19. (1) The Auditor General shall annually prepare an estimate of the sums that will be required to be provided by Parliament for the payment of the salaries, allowances and expenses of his office during the next ensuing fiscal year.

Special report

(2) The Auditor General may make a special report to the House of Commons in the event that amounts provided for his office in the estimates submitted to Parliament are, in his opinion, inadequate to enable him to fulfil the responsibilities of his office. 1976–77, c. 34, s. 20.

Appropriation allotments

20. The provisions of the *Financial Administration Act* with respect to the division of appropriations into allotments do not apply in respect of appropriations for the office of the Auditor General. 1976–77, c. 34, s. 21.

Audit of the Office of the Auditor General

Audit of the office of the Auditor General

21. (1) A qualified auditor nominated by the Treasury Board shall examine the receipts and disbursements of the office of the Auditor General and shall report annually the outcome of his examinations to the House of Commons.

Submission of reports and tabling

(2) Each report referred to in subsection (1) shall be submitted to the President of the Treasury Board on or before the 31st day of December in the year to which the report relates and the President of the Treasury Board shall lay each such report before the House of Commons within fifteen days after receipt thereof by him or, if that House is not then sitting, on any of the first fifteen days next thereafter that the House of Commons is sitting. 1976–77, c. 34, s. 22.

Sustainable Development

Purpose

21.1 The purpose of the Commissioner is to provide sustainable development monitoring and reporting on the progress of category I departments towards sustainable development, which is a continually evolving concept based on the integration of social, economic and environmental concerns, and which may be achieved by, among other things,

(a) the integration of the environment and the economy;

(b) protecting the health of Canadians;

(c) protecting ecosystems;

(d) meeting international obligations;

(e) promoting equity;

(f) an integrated approach to planning and making decisions that takes into account the environmental and natural resource costs of different economic options and the economic costs of different environmental and natural resource options;

(g) preventing pollution; and

(h) respect for nature and the needs of future generations. 1995, c. 43, s. 5.

Petitions received

22. (1) Where the Auditor General receives a petition in writing from a resident of Canada about an environmental matter in the context of sustainable development that is the responsibility of a category I department, the Auditor General shall make a record of the petition and forward the petition within fifteen days after the day on which it is received to the appropriate Minister for the department.

Acknowledgement to be sent

(2) Within fifteen days after the day on which the Minister receives the petition from the Auditor General, the Minister shall send to the person who made the petition an acknowledgement of receipt of the petition and shall send a copy of the acknowledgement to the Auditor General.

Minister to respond

(3) The Minister shall consider the petition and send to the person who made it a reply that responds to it, and shall send a copy of the reply to the Auditor General, within

(a) one hundred and twenty days after the day on which the Minister receives the petition from the Auditor General; or

(b) any longer time, where the Minister personally, within those one hundred and twenty days, notifies the person who made the petition that it is not possible to reply within those one hundred and twenty days and sends a copy of that notification to the Auditor General.

Multiple petitioners

(4) Where the petition is from more that one person, it is sufficient for the Minister to send the acknowledgement and reply, and the notification, if any, to one or more of the petitioners rather than to all of them. 1995, c. 43, s. 5.

Duty to monitor

23. (1) The Commissioner shall make any examinations and inquiries that the Commissioner considers necessary in order to monitor

(a) the extent to which category I departments have met the objectives, and implemented the plans, set out in their sustainable development strategies laid before the House of Commons under section 24; and

(b) the replies by Ministers required by subsection 22(3).

Commissioner's report

(2) The Commissioner shall, on behalf of the Auditor General, report annually to the House of Commons concerning anything that the Commissioner considers should be brought to the attention of that House in relation to environmental and other aspects of sustainable development, including

(a) the extent to which category I departments have met the objectives, and implemented the plans, set out in their sustainable development strategies laid before that House under section 24;

(b) the number of petitions recorded as required by subsection 22(1), the subject-matter of the petitions and their status; and

(c) the exercising of the authority of the Governor in Council under any of subsections 24(3) to (5).

Submission and tabling of report

(3) The report required by subsection (2) shall be submitted to the Speaker of the House of Commons and shall be laid before that House by the Speaker on any of the next fifteen days on which that House is sitting after the Speaker receives it. 1995, c. 43, s. 5.

Strategies to be tabled

24. (1) The appropriate Minister for each category I department shall cause the department to prepare a sustainable development strategy for the department and shall cause the strategy to be laid before the House of Commons

(a) within two years after this subsection comes into force; or

(b) in the case of a department that becomes a category I department on a day after this subsection comes into force, before the earlier of the second anniversary of that day and a day fixed by the Governor in Council pursuant to subsection (4).

Updated strategies to be tabled

(2) The appropriate Minister for the category I department shall cause the department's sustainable development strategy to be updated at least every three years and shall cause each updated strategy to be laid before the House of Commons on any of the next fifteen days on which that House is sitting after the strategy is updated.

Governor in Council direction

(3) The Governor in Council may, on that recommendation of the appropriate Minister for a department not named in Schedule I to the *Financial Administration Act*, direct that the requirements of subsections (1) and (2) apply in respect of the department.

Date fixed by Governor in Council

(4) On the recommendation of the appropriate Minister for a department that becomes a category I department after this subsection comes into force, the Governor in Council may, for the purpose of subsection (1), fix the day before which the sustainable development strategy of the department shall be laid before the House of Commons.

Regulations

(5) The Governor in Council may, on the recommendation of the Minister of the Environment, make regulations prescribing the form in which sustainable development strategies are to be prepared and the information required to be contained in them.

1995, c. 43, s. 5.

Schedule

(Section 2)

Atlantic Canada Opportunities Agency
Canada Customs and Revenue Agency
Canadian International Development Agency
Federal Office of Regional Development – Quebec
Parks Canada Agency

1995, c. 43, Sch.; 1998, c. 31, s. 49; 1999, c. 17, s. 108.

Appendix B Reports of the Standing Committee on Public Accounts to the House of Commons, 2004–05

The following reports have been tabled since our November 2004 Report was published. They are available on the Web site of Canada's Parliament (www.parl.gc.ca).

38th Parliament, 1st Session

Report 6—Public Accounts of Canada 2004 (presented to the House, 8 February 2005)

Report 7—Report on Plans and Priorities 2004, and the Report on Performance for the period ending 31 March 2004 of the Office of Auditor General of Canada (presented to the House, 14 February 2005)

Report 8—Main Estimates 2005-2006: Vote 20 under FINANCE (presented to the House, 6 April 2005)

Report 9—Chapter 3, The Sponsorship Program, Chapter 4, Advertising Activities and Chapter 5, Management of Public Opinion Research of the November 2003 Report of the Auditor General of Canada (presented to the House, 7 April 2005)

Report 10—Governance in the Public Service of Canada: Ministerial and Deputy-Ministerial Accountability (presented to the House, 10 May 2005)

Report 11—Chapter 4, Management of Federal Drug Benefit Programs of the November 2004 Report of the Auditor General of Canada (presented to the House, 13 May 2005)

Report 12—Chapter 4, Accountability of Foundations of the February 2005 Report of the Auditor General of Canada (presented to the House, 2 June 2005)

Report 13—Report on Plans and Priorities 2005-2006 of the Office of the Auditor General of Canada (presented to the House, 7 June 2005)

Report 14—Chapter 1, Information Technology Security of the February 2005 Report of the Auditor General of Canada (presented to the House, 7 June 2005)

Report 15—Chapter 1, Internal Audit in Departments and Agencies of the November 2004 Report of the Auditor General of Canada (presented to the House, 9 June 2005)

Report 16—Request for an extension of 30 days to consider Bill C-277 (presented to the House, 9 June 2005)

Report 17—Chapter 5, Indian and Northern Affairs Canada—Education Program and Post-Secondary Student Support of the November 2004 Report of the Auditor General of Canada (presented to the House, 16 June 2005)

Report 18—National Security in Canada (presented to the House, 23 June 2005)

Report 19—Management of Public Opinion Research (presented to the House, 28 June 2005)

Appendix C Report on the audit of the President of the Treasury Board's report *Tabling of Crown Corporations Reports in Parliament*

Tablings in Parliament for parent Crown corporations: annual reports and summaries of corporate plan and budgets

Section 152 of the *Financial Administration Act* requires the President of the Treasury Board to table in each House of Parliament a report on the timing of tabling, by appropriate ministers, of annual reports and summaries of corporate plans and budgets of Crown corporations. The report is included in the *2005 Annual Report to Parliament—Crown Corporations and Other Corporate Interests of Canada*, which must be tabled by 31 December. (The 2005 Annual Report had not been tabled when our report was published.)

The report, as required by section 152 and entitled *Tabling of Crown Corporations Reports in Parliament*, shall indicate when the summaries of corporate plans, capital budgets, operating budgets, investment budgets, and annual reports were required to be tabled in each House and the date they were actually tabled. The report shall contain a list of the Crown corporations subject to the reporting provisions of Part X of the Act, which governs the tabling of reports.

The information in the report, as required by section 152, allows Parliament to hold the appropriate ministers and, ultimately, the Crown corporations accountable for the timely provision of the information required under the Act.

The Act also requires the Auditor General to audit the accuracy of this report and to present the results in her annual report to the House of Commons.

Auditor's report

To the House of Commons:

As required by subsection 152(2) of the *Financial Administration Act*, I have audited, for the year ended 31 July 2005, the information presented in the report *Tabling of Crown Corporations Reports in Parliament* included in the *2005 Annual Report to Parliament—Crown Corporations and Other Corporate Interests of Canada*. The reports are the responsibility of the President of the Treasury Board. My responsibility is to express an opinion on the information included in the report, as required by section 152, based on my audit.

I conducted my audit in accordance with the standards for assurance engagements established by the Canadian Institute of Chartered Accountants. Those standards require that I plan and perform an audit to obtain reasonable assurance as to whether the information disclosed in the report is free of significant misstatement. My audit included examining, on a test basis, evidence supporting the dates and other disclosures provided in the report.

In my opinion, the information presented in the report *Tabling of Crown Corporations Reports in Parliament* is accurate, in all significant respects, in accordance with its section The Deadlines for Tabling in Parliament.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
7 October 2005

Appendix D Costs of Crown corporation audits conducted by the Office of the Auditor General of Canada

The Office is required under section 147 of the *Financial Administration Act* to disclose the cost of preparing audit reports on all Crown corporations (Exhibit D.1) other than those exempted under section 85 of the Act. An audit report includes an opinion on a corporation's financial statements and on its compliance with specified authorities. It may also include reporting on any other matter deemed significant.

The Office is required by section 68 of the *Broadcasting Act* to report the cost of any audit report on the Canadian Broadcasting Corporation. For the fiscal year ended 31 March 2005, the full cost of the annual audit report was $722,413.

In 2004–05, the Office completed the special examination of nine Crown corporations.

A special examination determines whether a corporation's financial and management control and information systems and its management practices provide reasonable assurance that

- assets have been safeguarded and controlled;
- financial, human, and physical resources have been managed economically and efficiently; and
- operations have been carried out effectively.

In 2004–05, the Office completed the special examination of nine Crown corporations. The costs were

Canada Deposit Insurance Corporation	$289,693
Canada Science and Technology Museum Corporation	$612,346
Canadian Commercial Corporation	$422,243
Enterprise Cape Breton Corporation	$348,321
Export Development Canada	$826,951
Business Development Bank of Canada	$939,660
Freshwater Fish Marketing Corporation	$368,145
Marine Atlantic	$594,181
Standards Council of Canada	$392,961

Exhibit D.1 Cost of preparing annual audit reports for fiscal years ending on or before 31 March 2005

Crown corporation	Fiscal year ended	Cost
Atlantic Pilotage Authority	31.12.04	$60,298
Atomic Energy of Canada Limited (joint auditor)	31.03.05	348,727*
Blue Water Bridge Authority	31.08.04	62,290
Business Development Bank of Canada (joint auditor)	31.03.05	369,792*
Canada Deposit Insurance Corporation	31.03.05	94,660*
Canada Development Investment Corporation (joint auditor)	31.12.04	90,433
Canada Lands Company Limited (joint auditor)	31.03.05	208,858*
Canada Mortgage and Housing Corporation (joint auditor)	31.12.04	357,523
Canada Science and Technology Museum Corporation	31.03.05	105,034*
Canadian Air Transport Security Authority	31.03.05	339,067*
Canadian Commercial Corporation	31.03.05	145,282*
Canadian Dairy Commission	31.07.04	125,961
Canadian Museum of Civilization Corporation	31.03.05	125,796*
Canadian Museum of Nature	31.03.05	96,646*
Canadian Tourism Commission	31.12.04	240,535
Cape Breton Development Corporation	31.03.05	81,580*
Cape Breton Growth Fund Corporation	31.03.05	45,725*
Defence Construction Canada	31.03.05	67,452*
Enterprise Cape Breton Corporation	31.03.05	101,617*
Export Development Canada	31.12.04	689,212
Farm Credit Canada	31.03.05	417,360*
Freshwater Fish Marketing Corporation	30.04.04	153,918
Great Lakes Pilotage Authority	31.12.04	117,618
Laurentian Pilotage Authority Canada	31.12.04	108,675
Marine Atlantic	31.12.04	186,808
National Capital Commission	31.03.05	243,333*
National Gallery of Canada	31.03.05	108,649*
Old Port of Montréal Corporation Inc.	31.03.05	183,864*
Pacific Pilotage Authority Canada	31.12.04	47,455
Parc Downsview Park Inc.	31.03.05	127,844*
Queens Quay West Land Corporation	31.03.05	39,448*
Ridley Terminals Inc.	31.12.04	100,818
Royal Canadian Mint	31.12.04	403,300
Standards Council of Canada	31.03.05	55,333*
Telefilm Canada	31.03.05	90,542*
The Federal Bridge Corporation Limited	31.03.05	43,916*
The Jacques Cartier and Champlain Bridges Incorporated	31.03.05	82,298*
The Seaway International Bridge Corporation Limited	31.12.04	59,532
VIA Rail Canada Inc. (joint auditor)	31.12.04	347,088

*Preliminary costs subject to year-end adjustments

Report of the Auditor General of Canada to the House of Commons—November 2005

Main Table of Contents

Matters of Special Importance—2005
Main Points—Chapters 1 to 8

Chapter 1 Royal Canadian Mounted Police—Contract Policing

Chapter 2 The Quality and Reporting of Surveys

Chapter 3 Canada Revenue Agency—Verifying Income Tax Returns of Individuals and Trusts

Chapter 4 Managing Horizontal Initiatives

Chapter 5 Support to Cultural Industries

Chapter 6 Elections Canada—Administering the Federal Electoral Process

Chapter 7 Indian and Northern Affairs Canada—Meeting Treaty Land Entitlement Obligations

Chapter 8 Other Audit Observations

Appendices